TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1991

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS

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PART 1

DEPARTMENT OF THE TREASURY

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WEDNESDAY, FEBRUARY 28, 1990.

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1991

DEPARTMENTAL OFFICES

WITNESSES

LINDA M. COMBS, ASSISTANT SECRETARY (MANAGEMENT)

DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT

CHARLES B. RESPASS, DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION

OPENING REMARKS

Mr. ROYBAL. The committee will now hear from the Department of the Treasury, their Departmental Offices, and I ask Linda Combs to proceed in any manner that she may desire.

Dr. COMBS. Thank you, Mr. Chairman.

Mr. Chairman, Members of the committee, I am pleased to be here at this time, for the first time, to present the Departmental Offices' Fiscal Year 1991 appropriation request.

INTRODUCTION OF ASSOCIATES

With me on my left are Mr. David Nummy, who is the Deputy Assistant Secretary for Finance and Management, and on my right, Mr. Charles B. Respass, Deputy Assistant Secretary for Administration.

We have prepared a more comprehensive statement which we would like to submit for the record, sir.

Mr. ROYBAL. And that statement will appear in the record at this point, and we ask you to summarize.

PREPARED STATEMENT

[The information follows:]

OPENING STATEMENT OF
LINDA M. COMBS
ASSISTANT SECRETARY OF THE TREASURY (MANAGEMENT)
DEPARTMENT OF THE TREASURY
BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE,
AND GENERAL GOVERNMENT

FEBRUARY 28, 1990

Mr. Chairman and Members of the Committee, I am pleased to be here, for the first time, to present Departmental Offices' Fiscal Year 1991 appropriation request. With me are David M. Nummy, Deputy Assistant Secretary for Finance and Management, and Charles B. Respass, Deputy Assistant Secretary for Administration.

The Fiscal Year 1991 budget request for the Salaries and Expenses appropriation is for $63.1 million and 728 full-time equivalent (FTE) positions. This request represents an increase of $5.8 million over the Fiscal Year 1990 post-sequester level of $57.3 million. Approximately 85 percent of the increase represents costs which are non-discretionary in nature. These include:

- o $2.4 million, which is attributable to increased pay costs (annualization of the 1990 pay raise, the projected 1991 pay raise, and the Executive Level and Senior Executive Service pay raise), and
- o $2.5 million, which is for inflationary costs of current services and for the Digital Telecommunications System.

The balance of the request for the Salaries and Expenses appropriation is for increases of $.9 million. Of this amount, $.4 million is for restoration of the Main Treasury Building's South Courtyard, which is of increasing concern due to the fire, safety and health hazard the present structure poses. When the new cafeteria is opened in the Annex, removal of this hazard will become essential. The $.4 million increase, added to the base funding of $.6 million, will provide necessary financing to eliminate this hazard.

Our request of $.5 million for automated information systems is a bare bones request to provide for essential requirements. These include maintenance of the Unisys mainframe computer system, escalating costs for user automation services, and completion of Phase II of the Securities Data System for the Office of Domestic Finance.

I would like to elaborate on the increase requested to maintain the Unisys. While we are moving away from use of the obsolete Unisys computer, certain critical applications must remain on the Unisys until their migration to another system can be accomplished. During the interim, costs to operate and maintain the Unisys are increasing. Therefore, although our strategy is ultimately to migrate to another system, funding is required to meet the increased operational costs of the Unisys.

The Fiscal Year 1991 budget request for the International Affairs appropriation is for $27.5 million and 341 full-time equivalent (FTE) positions. This request represents an increase of $2.8 million over the Fiscal Year 1990 post-sequester level of $24.7 million.

Approximately 82 percent of the increase represents costs which are non-discretionary in nature. These include:

- o $1.0 million, which is attributable to increased pay costs comparable to those previously discussed for the Salaries and Expenses appropriation;
- o $ .7 million, which is for inflationary costs of current services and for telecommunications requirements; and
- o $ .6 million, which is for continuing inflationary increases in mandatory overseas costs. These costs include foreign service living and quarters allowance, transportation of household goods, services provided by the State Department, and housing and utilities costs. These increases for overseas inflation rates do not reflect program expansion and represent costs over which we have no control.

The balance of the request for the International Affairs appropriation is for increases of $.5 million. Of this amount, $.2 million is to fund a Congressionally-mandated comprehensive benchmark survey of foreign portfolio investment in the United States. This survey is required once every five years. The last survey was based on data through 1984. The upcoming survey will include data through 1989.

An increase of $.3 million is for automated information systems. These funds are needed to provide maintenance for the Unisys mainframe computer system, to meet user automation requirements, and to replace the Office of Intelligence Support's computer system.

As I indicated in the previous discussion of the Salaries and Expenses appropriation, we are moving away from use of the obsolete Unisys. However, until the migration of certain critical applications is completed, funding is required to meet increased operational costs of the Unisys.

This budget request, although conservative, will enable Departmental Offices to provide necessary support to the Secretary of the Treasury in fulfilling his responsibilities for domestic and international economic and tax policy, law enforcement, financial institutions supervision, and the financial management of the Federal Government.

This concludes my statement. I will be glad to answer any questions you may have.

BUDGET REQEUST

Dr. COMBS. Thank you very much. I will be happy to do so.

The Fiscal Year 1991 budget request for the Salaries and Expenses appropriation is for $63.1 million and for 728 FTE positions.

This request, which represents an increase of $5.8 million over the Fiscal Year 1990 post-sequester amount, is summarized briefly as follows: $2.4 million or approximately 40 percent of this increase is attributable to increased pay costs, and $2.5 million is for inflationary costs of current services and for the Digital Telecommunications System.

The balance of the request for the Salaries and Expenses appropriation is for increases of $.9 million. Of this amount, $.4 million is for the demolition of an unsafe area in the Main Treasury Building, and $.5 million is for our critical automated information systems.

The Fiscal Year 1991 budget request for the International Affairs appropriation is $27.5 million and 341 FTE positions. This request, which represents an increase of $2.8 million over the Fiscal Year 1990 post-sequester amount, is summarized briefly as follows: $1 million or approximately 40 percent of this increase is attributable to increased pay costs; $.7 million for inflationary costs of current services and telecommunications requirements, and $.6 million is for continuing inflationary increases in mandatory overseas costs.

The balance of the request for the International Affairs appropriation is for an increase of $.5 million. Of this amount, $.2 millior is for a Congressionally-mandated survey of foreign portfolio investment in the United States and $.3 million is for our critical automated information systems.

This budget request, although conservative, will enable Departmental Offices to provide necessary support to the Secretary of the Treasury in formulating and managing domestic and international tax and financial policies of the Federal Government.

This concludes my statement. I appreciate the opportunity to discuss the proposal with you, and I would be happy to answer any questions you may have.

Mr. ROYBAL. First I would like to welcome you to the committee. This is the first time you have appeared. I think that you will agree that this is a very friendly committee, we like to believe that everything we do, we do as a team and that it is actually designed to make your job easier. It seems to me that by working together along those lines we can accomplish more for the people in the United States.

Dr. COMBS. Thank you, sir.

AUTOMATED INFORMATION SYSTEMS

Mr. ROYBAL. I have some questions, but particularly with regard to increases, and I think while you explained some of them, I want to know what the automatic information system is and why it needs more than half a million dollars this year. That is just the increase, not anything else. Can you give the committee some information?

Dr. COMBS. For several years, sir, we have delayed doing some necessary automation within the Departmental Offices that should

have been accomplished. I think that having this in our Fiscal Year 1991 budget is our way of making a commitment to try to get these specific improvements that we very desperately need.

We specifically are asking for the UNISYS operating expenses that we have right now. It is $530,000. We have hotline support that is contracted out. It is $54,000. We have our Wang replacement, as well and our securities data system. We have financial analysis matters that need to be automated and we are in the process of doing so. This would help us to do that as well.

Mr. ROYBAL. All right. This increase of $539,000 is in addition to the amounts that have been previously spent and the question is will this be the last request made for that purpose, at least in the next couple of years?

Dr. COMBS. Well, we have been working very, very hard even before I got there, I understand, to try to automate and to do some automation that has been desperately needed. This particular request right here is to assist in that, and I would expect that we would have other needs.

Mr. ROYBAL. At one time or another, you are going to have to complete the program. It has to be completely automated. When do you estimate that will take place?

Dr. COMBS. The complete automation of the Departmental Offices will take quite some time. We are very much behind the curve, sir. I will say in the few months that I have been there, we really are very much behind the curve and we desperately need to make some changes within our automation systems.

Mr. ROYBAL. We in this committee believe that you must have the most efficient equipment. And we are not here to recommend any decreases in equipment. We think you should have the best. But we would like to get an estimate some time as to when you reach that plateau and what the efficiency rate would be once you reach it.

I realize that you cannot answer those questions unless you start looking in a crystal ball. But I am sure that you have some idea as to how long it will take to complete the automated system and I hope it is within the next two, three, four years. What do you think?

Dr. COMBS. Let me just add that one of the things we are trying to do—when we talked about phasing out one of our operating systems. We have, quite frankly, right now a very expensive operating system and we are trying to phase that down. But you cannot just take every application off of there all at one time. We have to have a staging of those applications taken off and we are right now looking at every single possible alternative that we can to do that.

We expect this staged phase out of the operating systems and the UNISYS equipment to be completed within the next couple of years. That will be a major ongoing expense that we have now that will be reduced. But that still does not permit us to do the kinds of incremental improvements that we need to have in order to efficiently run the Departmental Offices.

REPAIRS AND IMPROVEMENTS PROJECTS

Mr. ROYBAL. I ask these questions because we have been making appropriations to the repairs and improvements of the Main Treasury Building. And I thought that we already appropriated all that was necessary, that the job was completed. But in this year, you are requesting an additional $425,000.

Dr. COMBS. I would like to explain that to you.

Mr. ROYBAL. Would you please explain that.

Dr. COMBS. That particularly is for the demolition of what is now our cafeteria. As you recall, we do have ongoing work to complete the Annex in the Treasury Department.

We are moving the cafeteria to the Annex. I must tell you that since I came on just a few months ago, how impressed I have been with the Treasury Department and the things that have gone on to complete the Annex project.

The project is on time, it is on schedule, and it is on budget. All we are asking for is $.4 million to take away what we consider to be and what certainly is a health problem for our employees there.

Mr. SKEEN. Your cafeteria?

Dr. COMBS. Right now. The building itself is in the courtyard and is it safe to say it is a Quonset hut? That is what it looks like.

Mr. RESPASS. It was a temporary shelter one hundred years ago.

Dr. COMBS. That is why we want to demolish it.

GSA CONTROL OF TREASURY BUILDINGS

Mr. ROYBAL. Well, this is a repair project that is not under GSA. Most other projects are under GSA. So then you would have then the responsibility of letting out contracts, supervising the work, I suppose, and I would like to know how many personnel are actually involved in this work.

Dr. COMBS. In the work itself?

Mr. ROYBAL. In first of all awarding contracts and seeing that the contracts are complied with and things of that type. In other words, why are you doing something that GSA has done for years?

Dr. COMBS. GSA assists us in some of these matters and you probably might want to talk with Mr. Respass. He might be better able to answer that specific question.

Mr. ROYBAL. Mr. Respass, can you tell me that?

Mr. RESPASS. It is an honor to be back here again, Mr. Roybal. I want to thank Mr. Skeen and the staff committee that came out. I know you visited our building and I think you came to the dining room. I appreciate the interest particularly Tex Gunnels and Bill Smith have extended to us this year.

I know we discussed GSA last year. We have exactly the same staff today that we had when I arrived at Treasury in 1985. It is five professionals. Those five people used to interrelate with GSA who worked with the contractor; now we still have five core people but we interrelate directly with the contractor. It has worked very well, even in the Annex.

GSA has looked at our modular system and the work we have going on. They are considering us for the "Government Workplace Benchmark Improvement" award for using these systems effectively.

I can only say that I think it still gives us better control of the projects. We have a good staff. We have shown ourselves and we have demonstrated that we have done a good job. I would just hope that I could express an understanding that we are doing well in that area. We do deal with GSA and the Park Service when it is appropriate, sir.

Mr. ROYBAL. I suppose you do deal with GSA, but they do not actually let out the contract, they do not supervise the work and they do not perform the everyday function that they would if the project was under GSA. What I am trying to get at is this: I see there is an increase of over $400,000, also an increase in the other area, in the Automated Information System of $539,000 and I was just trying to determine whether or not there will be similar costs next year and the next year and pretty soon every half a million amounts to some money.

Mr. RESPASS. In Fiscal Year 1992, we have in our R&I program, and I will submit for the record our ten year plan, $340,000 for repair work to ensure that our building remains safe and in satisfactory condition. We have planned as the primary projects the 15th Street entrance steps repair, the Hamilton place sidewalk repair, and some survey work.

REPAIRS AND IMPROVEMENTS TEN YEAR PLAN

Mr. ROYBAL. Did you say it was a ten year plan?

Mr. RESPASS. Yes, sir.

Mr. ROYBAL. Then you will submit then the plans for the project.

Mr. RESPASS. Yes, sir.

Mr. ROYBAL. And let us know when it started, how much is expected to be appropriated and what remains to be done with regard to the remaining cost.

Mr. RESPASS. I would be glad to.

[The information follows:]

Mr. ROYBAL. That will give us an idea of what would be required for years to come. Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman, and I, too, want to welcome you here.

OFFICE OF FOREIGN ASSETS CONTROL

The conference committee last year included $2 million for 40 FTEs to cover positions in the Office of Foreign Assets Control. Give me some idea of the expansion of that office, how it will affect the Department and what are your needs or what do you anticipate will be your needs in that particular area in this coming year.

Dr. COMBS. Mr. Nummy has been working with that situation. I would like him to respond.

Mr. SKEEN. I have been wanting to hear from David all day.

Dr. COMBS. He has been sitting so quietly, has he not?

Mr. SKEEN. He does very well.

Mr. NUMMY. The basic answer to your question is that by the end of the year we will have on board a total of 40 staff.

Mr. SKEEN. You will have your full complement.

Mr. NUMMY. We will have the full number of 40 positions. We won't achieve 40 FTE because as you know it takes a full year's work to get an FTE. But we are going to get there.

You asked the question what was the impact upon the Department. That was a mandate that was not funded so it was one of the shortfalls we had to contend with this year.

Mr. SKEEN. You had to swallow it this year.

Dr. COMBS. Yes, we did.

Mr. SKEEN. Including retirement and all of that?

Mr. NUMMY. Yes. So basically, that combined with the pay raise that we had to absorb and general inflation, we have had to cut back on some initiatives. But so far we have been able to keep the basic complement of those people that serve the Secretary.

Mr. SKEEN. But you have fully implemented the work of the Foreign Assets Control Office.

FINANCIAL CRIMES ENFORCEMENT NETWORK

This question has to do with the Financial Crimes Enforcement Network. We put it under the Customs account. There is a great debate going whether it should be in Treasury. Would you give me some idea of how you feel about it.

Mr. NUMMY. I can answer that as well. FINCEN has always been envisioned as a main Treasury operation. Customs has been the lead agency within the Department in the area of financial crimes investigations, so when the idea was conceived that we needed a combined, multi-bureau resource we initially went to Customs for some of their initial expertise. We have been using it in the initial stages of FINCEN.

But we do view it as a main Treasury operation, although we view it as a Treasury-wide operation as well, because we plan to have people from IRS, ATF and Secret Service as well as Customs. So I think the Department's point of view is that it is a main Treasury function.

Mr. SKEEN. Well, under the operating aegis that we have given you now, does that make it a little bit awkward for you?

Mr. NUMMY. I am sorry—Under the operating?

Mr. SKEEN. Under the administrative control and so forth that you have now, with it being under Customs, does this make it an awkward operation as far as Treasury is concerned?

Mr. NUMMY. I think in terms of getting FINCEN started it's actually been to the advantage of the program because they had the initial expertise. The plan is that if we get concurrence from the subcommittee to move forward with FINCEN, and that's still a request before the subcommittee, that we will then continue to fold it in.

Mr. SKEEN. Roll it into a full Treasury operation.

Mr. NUMMY. A full Treasury operation.

Mr. SKEEN. I think it makes a lot of sense, and I wanted to hear the arguments.

CHILD CARE CENTER

I want to commend you on the establishment of the child care facility. I'm saying this for Frank Wolf and all the rest of us that are interested in that. How is that program going? Can you give me some idea?

Dr. COMBS. We're still in the planning stages, but we are very excited about that.

Mr. SKEEN. But you have initiated that.

Dr. COMBS. We have initiated it. We have done employee surveys and we have teamed up with, as a matter of fact, some other departments that are in our immediate neighborhood for what we consider to be a community child care center. We're very excited about that because we feel like——

Mr. SKEEN. That's so practical it almost hurts. You're going to lose your status as a bureau or an agency if you don't be careful.

Dr. COMBS. Well, we feel what's important is the health benefits and the benefits to our employees. We feel this is a very important thing.

Mr. SKEEN. I think it's an excellent thing. Very progressive.

Dr. COMBS. I appreciate your bringing that up. As we were formulating the concept there wasn't time to get it in the Fiscal Year 1991 budget, so we're going to have to be probably working with you folks.

Mr. SKEEN. Is this going to create a funding problem or a funding burden?

Dr. COMBS. We haven't got that far yet. You know, one of the other things we're trying to be very practical about is actually doing some fundraising for this, because it is to be a private incorporated entity and so we're planning to try to see if we can't——

Mr. SKEEN. So if they want it, they can support it and make it work.

Dr. COMBS. Well, not quite to that extent.

Mr. SKEEN. Is that too radical? I will back off.

Dr. COMBS. We feel like it's our responsibility to help and assist with part of it, but we certainly feel like——

Mr. SKEEN. How many other agencies have child care facilities established?

Dr. COMBS. A great number of other departments have already established them.

Mr. SKEEN. Do you exchange information with these folks?

Dr. COMBS. Oh, yes. We've been in contact with them.

Mr. SKEEN. I thank you for your testimony.

Dr. COMBS. Thank you very much.

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. ROYBAL. Thank you, Mr. Skeen. Mr. Alexander?

Mr. ALEXANDER. No questions. Thank you very much.

Mr. ROYBAL. Dr. Combs, we'd like to again thank you for your presence and wish you every success in your position.

Dr. COMBS. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

Mr. ROYBAL. The committee will take your request under advisement and we will submit questions to you and we hope you can answer as soon as possible.

Dr. COMBS. We'll be happy to do so. Thank you very much.

Mr. ROYBAL. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

EXPLANATION OF INCREASES

Mr. Roybal: Please explain the requested increase of $539,000 for the Automated Information System.

Dr. Combs: The proposed increase to the Salaries and Expenses appropriation is for:

- Continuing basic services for the Unisys: $433,000. By FY 1991, Unisys customers outside Departmental Offices are expected to migrate to state-of-the-art technology available at other sites. Therefore, reimbursements will not be forthcoming, and Departmental Offices must pay the entire cost of the Unisys 1100/82 mainframe computer system.

  Departmental Offices must maintain the system during FY 1991 because a number of small but very critical applications require maintenance of the core system configuration. For example, Departmental Offices' financial management system, which is in the process of being replaced, is one of the systems still operating on the Unisys. Although the new financial management system is scheduled for use at the beginning of FY 1991, the current Unisys-based system will be required to support historical records.

- Maintaining adequate response on the computer hotline: $44,000. Currently operated by a contractor, the computer hotline service provides office automation hardware and software support. By FY 1991, escalated demand created by increased use of desktop computing will require additional contractual support.

- Replacement of the securities data system: $62,000. The Office of Domestic Finance replaced three independent, antiquated securities management systems with a consolidated system. It provides analysis and policy information vital to the successful management of Treasury securities. Phase I, a comprehensive data collection and statistical analysis system, was realized in FY 1989. The first parts of Phase II, requirements analysis and system design of a reporting subsystem, will be completed in FY 1990. However, the programming, testing, and implementation of the new reporting subsystem is scheduled for FY 1991.

Mr. Roybal: What is the remainder of the $5 million increase for?

Dr. Combs: The remaining $5,238,000 increase requested for the Salaries and Expenses appropriation in FY 1991 is detailed below.

	($000s)
o Program Changes	
-Repairs and Improvements	$ 427
o Other Changes	
-Adjustments necessary to maintain current levels:	
Annualization of FY 1990 Pay Raise	$ 332
Proposed FY 1991 Pay Raise	813
EX/SES Pay Raise	1,241
Additional Compensable Day	144
Health Insurance	113
All Other Benefits	82
Workers' Compensation	25
Travel and Transportation of Persons	29
Transportation of Things	4
Rent, Communications and Utilities	816
Printing and Reproduction	73
Other Services	270
Supplies and Materials	56
Equipment	38
Subtotal, Adjustments Necessary to Maintain Current Levels	$ 4,036
-Increase in Payment for Digital Telecommunications System (DTS)	$ 775
SUB-TOTAL, OTHER CHANGES	$ 4,811
TOTAL INCREASES	$ 5,238

REPAIRS AND IMPROVEMENTS REQUEST

Mr. Roybal: You are again requesting funds - this year $427,000 - to continue repairs and improvements to the Main Treasury and Annex buildings.

The Committee would like to have your most recent plans on this project -- when it started, how much has been appropriated, how much expended, and what remains to be done and the remaining cost?

Dr. Combs: To date, the demolition of the Main Treasury cafeteria and the restoration of this site to a courtyard is only in the planning stage. Thus, work has not been started. We have not received appropriated funds for this project yet.

Departmental Offices' cafeteria complex is presently located in the South Courtyard of the Main Treasury Building. It is a 10,000 square foot, one story wood framed structure which was constructed in the 1890s as a temporary facility. The structure has been deteriorating over the years and much of the equipment is old and out-of-date. This one hundred-year-old temporary building is unsafe, a liability and must be demolished as soon as possible. The structure is a fire hazard due to rotted wood. It is also rodent and roach infested. The entire structure, including the plumbing and electrical systems, is antiquated and unfit for conversion to workspace. The roof is also in a deteriorated state. Due to these hazards, a new cafeteria was included in the Annex Building renovation and will be opening in FY 1990.

The total cost to demolish the unsafe wood structure and replace it with the original courtyard is $989,000.

Below is the cost breakdown:

Demolition	$420,000
Restoration of the courtyard	520,000
Design (contract drawings)	49,000
Total	$989,000

Departmental Offices considered other options but the above was the most cost effective and in the best interest for Departmental Offices' employees' health and welfare.

BUILDING OPERATING AUTHORITY

Mr. Roybal: Why isn't this repair project under the control of the GSA, as most other similar projects are?

- Who lets the contracts and supervises the work?
- How many Treasury personnel are involved in this work?

Dr. Combs: The Federal Property and Administrative Services Act of 1949 authorizes the Department of the Treasury to manage the Main Treasury Building and Annex Building.

By the authority of this Act, Departmental Offices is responsible for the operation, maintenance and repair of the Main Treasury and Annex Buildings. Departmental Offices is required to request funding from Congress for projects.

Once funds have been appropriated, Departmental Offices' Buildings Manager accomplishes the repair projects by using the Treasury in-house maintenance and operations staff to supervise the projects. We use the private sector or other government agencies, which ever is most cost-effective and efficient.

Departmental Offices' Procurement Services Division awards the repairs and improvements contracts and the Facilities Management Division supervises the projects.

The personnel involved with repairs and improvements projects include five professionals (two architects, one construction inspector and two space planners), as well as 63 various in-house maintenance and operation craft personnel to provide inspections with the professional staff managers for the projects as needed. The maintenance and operation personnel also have responsibility for the day to day building maintenance operations of both buildings.

OVERSEAS COSTS

Mr. Roybal: Please explain the $639,000 program increase in mandatory "overseas costs".

Dr. Combs: An increase of $639,000 is required to finance mandatory overseas costs, including services provided primarily by the Department of State. Funding for these highly inflationary requirements is not provided within the deflator factor as an MCL (Maintaining Current Level) increase. However, these requirements are not discretionary, and they do not represent program expansion.

These items included within the overseas costs in the FY 1991 Budget are:

Foreign living and quarters allowance	$ 12,400
Overseas housing and utilities	31,600
Post differential	260,000
Travel	86,000
Shared Support	145,000
Direct Support	48,400
Administrative services	55,600
Total	$ 639,000

OVERSEAS PERSONNEL

Mr. Roybal: How many personnel funded under International Affairs are actually stationed outside of the United States? How many stations, or locations, do you support overseas?

Dr. Combs: There are 41 positions in 13 overseas stations fundod in the International Affairs appropriation.

Abidjan - African Development Bank

U.S. Director
U.S. Alternate Director
Secretary

Bern

Financial Attache
Secretary

Bonn

Financial Attache
Asst. Attache
Secretary (2)

Brasilia

Financial Attache
Secretary

London

Financial Attache
Asst. Attache
Secretary (2)

Manila - Asian Development Bank

U.S. Director *
U.S. Alternate Director **
Secretary

Mexico City

Financial Attache
Secretary

Ottawa

Financial Attache
Secretary

Paris

Financial Attache
Asst. Attache
Secretary (2)

Paris - Organization for Economic Cooperation and Development

Minister Counselor
Asst. Attache
Secretary

Riyadh

Financial Attache
Secretary
Driver

Rome

Financial Attache
Asst. Attache
Secretary (2)
Economist

Tokyo

Financial Attache
Asst. Attache
Secretary (2)
Economic Specialist (2)

*Paid by State Department.
**Paid by the Asian Development Bank.

TRAVEL EXPENSES

Mr. Roybal: What is the $2,000,000 for official travel expenses for?

Dr. Combs: The International Affairs (IA) appropriation language request specifically sets a $2 million ceiling on travel. The Salaries and Expenses (S&E) appropriation assumes the budget request ($740 thousand) is the ceiling. In FY 1989, actual travel costs amounted to approximately $334 thousand in S&E and $465 thousand in IA obligations.

Departmental Offices has historically spent much less than the $2 million ceiling on international travel. However, although we do not expect to reach the ceiling in FY 1990 or FY 1991, that level provides the necessary flexibility for years when important international meetings are held.

Travel for the Offices of the Under Secretary and Assistant Secretary for International Affairs (OASIA) are included in the IA appropriation. In FY 1989, OASIA used $382 thousand of the $465 thousand spent for international travel.

SERVICES PROVIDED BY THE DEPARTMENT OF STATE

Mr. Roybal: What is your working agreement with the Department of State for service overseas?

Dr. Combs: A substantial amount of the administrative support required by Department of the Treasury financial attaches stationed abroad is provided through the Department of State.

Those services, for which we reimburse the Department of State, are grouped into two categories:

Direct support costs are those that are directly attributable to only Departmental Offices (e.g. rent and utilities). There are two mechanisms by which funds are expended under this category: reimbursable agreements and cables. Agreements are appropriate for use when, for example, we are utilizing Department of State-owned housing. The Department of State provides this "service" and bills the Departmental Offices per/via the agreement. Another example of direct support is the use of Department of State employees (e.g. a Foreign Service National) to work only on behalf of Departmental Offices. These salaries are reflected in the agreement. Salaries may be subject to fluctuation because of the exchange rate and local costs.

The other mechanism, preferred by the Department of State in cases other than those of Foreign Service Nationals, is the cable, which serves as authority for the Department of State to expend funds to pay bills. Generally, these bills are of the commercial type, such as for non-Department of State-owned housing. The Department of State Budget and Fiscal Office receives the cable as authority to cite when paying such bills. When using cables, the Department of State is able to directly charge Departmental Offices' appropriation.

MAIN TREASURY AND ANNEX BUILDINGS
SUMMARY OF REPAIRS AND IMPROVEMENTS PROJECTS

Funds in Thousands

	Funds		Funds		Funds
FY-86 APPROPRIATION		**FY-90 REQUEST**		**FY-94 con't**	
Annex Renovation Design	$ 683	South Plaza & Fence Repair	$ 445	West Steps Repairs Main Treasury Pending FY-90 Survey	-
FY-87 APPROPRIATIONS		A-E Services (Main			
Retrofill Seven P.C.B. Transformers	550	Treasury Roof & West Steps Survey)	128	Repair North & East Fence	$ 265
Asbestos Removal at Two Steam Rooms	50	**FY-91 PLAN**			
		Remove Main Treasury Cafeteria & Restore	1,000	Asbestos Removal Main Treasury	
Chiller Repairs & Tower Maintenance	50	South Courtyard		A/C Ducts	200
		FY-92		A-E Survey	120
		Hamilton Place Sidewalk Repair	175	Electrical Distribution System Main	
FY-87 SUPPLEMENTAL					
Annex Renovation	5,000	Fifteenth Street Steps Repair	165	Treasury	
FY-88 APPROPRIATIONS				**FY-95**	
Roof Repairs	258.5			Construct New	50
		FY-93		Blind Stand Main Treasury	
Asbestos Removal	220	Annex Alley Improvements	350		
Replace Freight Elevator - Annex Dock	94.5	Annex Loading Dock & Leveler Improvements	160		
				FY-96	
				Upgrade Electrical Distribution	-
FY-89 APPROPRIATION		**FY-94**		System Main	
Fifteenth Street Sidewalk Improvements	573	New Roof/Roof Repairs Main Treasury Pending FY-90 Survey	-	Treasury Pending FY-94 Survey	

Services Provided by the Department of State (Continued)

Shared support costs are those related to the costs of Foreign Affairs Administrative Support (FAAS) staff to service Departmental Offices' employees overseas. Examples of such services include payroll processing, file maintenance, and telegraphic traffic. The Department of State provides services and Departmental Offices reimburses the Department of State for Departmental Offices' portion of these services. The reimbursements are effected pursuant to FAAS agreements.

Direct and Shared Support reimbursable agreements are billed via SF-1081. The Department of State transmits the reimbursable agreement to Departmental Offices. Upon receipt of the authorized agreement from Departmental Offices, Department of State issues the SF-1081 to collect the funds.

Factors affecting the amounts spent for these services include:

1. In-country inflation rates;

2. The exchange value of the dollar;

3. The size of Departmental Offices' staff at various posts; and

4. Cost distribution factors determined by the Department of State.

In FY 1990, Departmental Offices plans to reimburse the Department of State as follows:

		FY 1990
Direct support to the Department of State	$	353,000
Shared support with the Department of State		1,309,000
Reimbursable Detail		175,000
Est. Total	$	1,837,000

SECURITY FOR EMPLOYEES STATIONED OVERSEAS

Mr. Roybal: What kind of security is provided U.S. employees (and their families) stationed overseas?

Dr. Combs: The Department of State is responsible for the protection of U.S. employees stationed at U.S. missions overseas. The level of security provided U.S. employees and their families depends on the location-threat level, which is determined by the Department of State. Some locations may require guards stationed in the residential areas or periodic police patrols. However, locations that are not determined to be in a threat area do not need special security support. The Department of State's Diplomatic Security provides Departmental Offices' employees and their families the same level of security as other U.S. employees stationed at overseas missions.

PRIVATELY OWNED VEHICLES OVERSEAS

Mr. Roybal: Are U.S. employees permitted to take personally owned vehicles overseas? Who insures these vehicles?

Dr. Combs: Departmental Offices follows the regulations of the Department of State on shipping goods overseas. Those regulations permit the shipment of privately owned vehicles, and we have done so on occasion. As a general rule, we ship vehicles only when there would be an unusual financial loss to the affected employee.

Departmental Offices does not insure vehicles for employees overseas. This is the responsibility of the employee.

Departmental Offices, Combined

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	1,137	1,089	83,091
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill	0	0	0
FY 1990 Rescissions (P.L. 101-164) Enacted in Transportation Bill	0	0	0
Sequestration (P.L. 99-177)	0	0	(1,092)
Transfers to/from other accounts	0	0	0
FY 1990 Authorized Level	1,137	1,089	81,999
FY 1991 Estimate	1,137	1,089	90,800

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY APPROPRIATION
(Dollars in thousands)

APPROPRIATION	Actuals FY 1989		Authorized Level FY 1990		Budget Estimate FY 1991		Increase (+) or Decrease (-) for FY 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. SALARIES AND EXPENSES	758	64,570	725	67,306	725	63,083	0	5,777	0	966	0	4,811
2. INTERNATIONAL AFFAIRS	342	23,800	341	24,880	341	27,917	0	2,927	0	1,054	0	1,773
Unobligated balance available, SOY	—	(2,978)	—	—	—	—	0	0	0	0	0	0
Unobligated balance available, EOY	—	2,486	—	—	—	—	0	0	0	0	0	0
Unobligated balance lapsing	—	532	—	—	—	—	0	0	0	0	0	0
Total appropriation, authorized level and budget estimate	1,100	75,894	1,089	81,999	1,089	90,800	0	8,904	0	2,020	0	6,884
Permanent positions	1,248	—	1,137	—	1,137	—	0	—	0	—	0	—

Departmental Offices, Combined

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	1,137	1,069	83,091
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill	0	0	0
FY 1990 Recissions (P.L. 101-164) Enacted in Transportation Bill	0	0	0
Sequestration (P.L. 99-177)	0	0	(1,092)
Transfers to/from other accounts	0	0	0
FY 1990 Authorized Level	1,137	1,069	81,999
FY 1991 Estimate	1,137	1,069	90,600

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in thousands)

Activity	Actuals FY 1989		Authorized Level FY 1990		Budget Estimate FY 1991		Increase (+) or Decrease (-) for FY 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Secretarial Policy and Program Development	423	24,518	457	28,534	457	29,439	0	1,905	0	0	0	1,905
2. Inspector General	63	2,993	0	0	0	0	0	0	0	0	0	0
3. International Affairs	221	14,304	211	13,979	211	15,660	0	1,681	0	789	0	892
4. Departmental Management and Administration	330	25,208	334	29,724	334	32,158	0	2,434	0	804	0	1,630
5. Buildings Maintenance and Operations	63	10,668	67	11,197	67	13,354	0	2,157	0	0	0	2,157
6. Repairs and Improvements	0	781	0	562	0	989	0	427	0	427	0	0
Unobligated balance available, SOY	---	(2,678)	---	0	---	---	0	0	0	0	0	0
Unobligated balance available, EOY	---	2,468	---	0	---	---	0	0	0	0	0	0
Unobligated balance lapsing	---	532	---	0	---	---	0	0	0	0	0	0
Total appropriation, authorized level and budget estimate	1,100	78,994	1,069	81,996	1,069	90,600	0	8,604	0	2,020	0	6,584
Permanent positions	1,246	---	1,137	---	1,137	---	0	---	0	---	0	---

02/12/90 (revised)

Departmental Offices, Salaries and Expenses

DEPARTMENT OF THE TREASURY
DEPARTMENTAL OFFICES

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	766	728	58,081
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill	0	0	0
FY 1990 Rescissions (P.L. 101-164) Enacted in Transportation Bill	0	0	0
Sequestration (P.L. 99-177)	0	0	(775)
Transfers to/from other accounts	0	0	0
FY 1990 Authorized Level	766	728	57,306
FY 1991 Estimate	766	728	63,083

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in thousands)

Activity	Actuals FY 1989		Authorized Level FY 1990		Budget Estimate FY 1991		Increase (+) or Decrease (-) for FY 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Secretarial Policy and Program Development	372	31,479	403	23,366	403	25,106	0	1,740	0	0	0	1,740
2. Inspector General	83	2,983	0	0	0	0	0	0	0	0	0	0
3. International Affairs	0	0	0	0	0	0	0	0	0	0	0	0
4. Departmental Management and Administration	280	21,533	290	25,033	280	26,983	0	1,950	0	539	0	1,411
5. Buildings Maintenance and Operations	43	7,785	45	8,343	45	10,003	0	1,660	0	0	0	1,660
6. Repairs and Improvements	0	781	0	582	0	980	0	427	0	427	0	0
Unobligated balance available, SOY	—	(2,670)	—	0	—	—	0	0	0	0	0	0
Unobligated balance available, EOY	—	2,466	—	0	—	—	0	0	0	0	0	0
Unobligated balance lapsing	—	269	—	0	—	—	0	0	0	0	0	0
Total appropriation, authorized level and budget estimate	758	54,631	728	57,306	728	63,083	0	5,777	0	966	0	4,811
Permanent positions	882	—	766	—	766	—	0	—	0	—	0	—

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SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in thousands)

	Activity 1			Activity 4			Activity 5			Activity 6			Total		
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
Program Changes:															
1. Repairs and Improvements	—	—	—	—	—	—	—	—	—	—	—	427	—	—	427
2. Automated Information Systems	—	—	—	—	—	539	—	—	—	—	—	—	—	—	539
Total, Program Changes	0	0	0	0	0	539	0	0	0	0	0	427	0	0	966
Other Changes:															
Adjustments Necessary to Maintain Current Levels:															
1. Annualization of FY 1990 Pay Act Increases	—	—	178	—	—	132	—	—	22	—	—		—	—	332
2. Increased Cost for Proposed FY 1991 Pay Raise	—	—	408	—	—	343	—	—	62	—	—		—	—	813
3. Increased Costs for EX/SES pay raise (P.L. 101-194)	—	—	1,013	—	—	228	—	—	0	—	—		—	—	1,241
4. Increased Cost for Additional Compensable Day	—	—	49	—	—	88	—	—	8	—	—		—	—	144
5. Increased Cost of Health Insurance	—	—	40	—	—	59	—	—	14	—	—		—	—	113
6. Increased Cost of All Other Benefits	—	—	30	—	—	42	—	—	10	—	—		—	—	82
7. Increased Cost of Workers Compensation	—	—	0	—	—	25	—	—	0	—	—		—	—	25
8. Increased Cost of Travel and Transportation of Persons	—	—	18	—	—	12	—	—	2	—	—		—	—	29
9. Increased Cost of Transportation of Things	—	—	2	—	—	2	—	—	0	—	—		—	—	4
10. Increased Cost of Rent, Communications and Utilities	—	—	0	—	—	115	—	—	701	—	—		—	—	816
11. Increased Cost of Printing and Reproduction	—	—	0	—	—	73	—	—	0	—	—		—	—	73
12. Increased Cost of Other Services	—	—	0	—	—	231	—	—	39	—	—		—	—	270
13. Increased Cost of Supplies and Materials	—	—	8	—	—	25	—	—	26	—	—		—	—	59
14. Increased Cost of Equipment	—	—	0	—	—	38	—	—	0	—	—		—	—	38
Subtotal, Adjustments Necessary to Maintain Current Levels	0	0	1,740	0	0	1,411	0	0	885	0	0	0	0	0	4,036
Increase in payment for DTS	—	—	0	—	—	0	—	—	775	—	—	0	—	—	775
Total, Other Changes	0	0	1,740	0	0	1,411	0	0	1,660	0	0	0	0	0	4,811
Total, increases or decreases compared with FY 1990 Authorized Level	0	0	1,740	0	0	1,950	0	0	1,660	0	0	427	0	0	5,777

Departmental Offices, Salaries and Expenses

SUMMARY JUSTIFICATION OF FY 1991 SALARIES AND EXPENSES BUDGET ESTIMATES

General Statement

The Departmental Offices' function in the Treasury Department provides basic support to the Secretary of the Treasury, who is the chief operating executive of the Department. The Secretary of the Treasury maintains the primary role in formulating and managing the domestic and international tax and financial policies of the Federal Government. The Secretary's responsibilities funded by the Salaries and Expenses appropriation include: recommending and implementing United States' domestic economic policy, fiscal policy and tax policy; governing the fiscal operations of the Government; managing the public debt; overseeing the major law enforcement functions carried out by the Treasury Department; and directing the general administrative operations of the Treasury Department.

In support of the Secretary, the Salaries and Expenses appropriation provides resources for policy formulation and implementation in the areas of tax and economic affairs, trade and financial operations and general fiscal policy. This appropriation also provides resources for comprehensive administrative support to the Secretary and policy components, and coordination of Departmental administrative policies in financial and personnel management, procurement operations, and automated information systems and telecommunications.

The operations of the Departmental Offices' Salaries and Expenses appropriation are comprised of the following major activities:

1. Secretarial Policy and Program Development - This activity includes the immediate offices of the Secretary and Deputy Secretary, as well as policy offices responsible for policy management, legal counsel, Treasury law enforcement and intelligence activities, foreign assets control, domestic tax policy, legislative affairs, public affairs, economic policy, general fiscal policy and debt management.

2. Inspector General - Consistent with P.L. 100-504, the Statutory Inspector General Act Amendment, this activity has been transferred to, and will henceforth report as, a separate appropriation account.

SUMMARY JUSTIFICATION OF FY 1991 SALARIES AND EXPENSES BUDGET ESTIMATES (continued)

3. International Affairs - This activity is financed in the International Affairs appropriation. It is listed here only to maintain consistency with the budget activity structure of the International Affairs appropriation.

4. Departmental Management and Administration - This activity provides support services associated with general administrative management, oversight of Treasury bureaus and the administration of the Departmental Offices function. These responsibilities include: financial management, personnel management, program and management analysis, procurement operations, telecommunication and information systems, equal employment opportunity programs, automated systems development and management, and other administrative activities.

5. Buildings Maintenance and Operations - Under the Federal Property and Administrative Services Act of 1949 (as amended), the Treasury Department has direct operational control over the Main Treasury Building and Annex. Services that otherwise would be provided by the General Services Administration (such as maintenance and utility services) are provided for Treasury directly through the Salaries and Expenses appropriation. This activity includes the staff and funding needed to conduct these operations.

6. Repairs and Improvements - This activity includes the program for repairs and selected improvements to maintain the Main Treasury and Annex buildings.

27-963 O—90—2

SUMMARY JUSTIFICATION OF FY 1991 SALARIES AND EXPENSES BUDGET ESTIMATES (continued)

The FY 1991 budget requirement for the Departmental Offices' Salaries and Expenses Appropriation includes 766 authorized positions, 728 full-time equivalent (FTE) positions, and $63.1 million -- an increase of $5.8 million from the resource levels provided for FY 1990. The Departmental Offices' FY 1991 Salaries and Expenses budget request reflects Presidential initiatives to restrain spending wherever possible, reduce the level of Federal civilian employment, utilize available staff to perform required workload, and fund increases only in the highest priority areas.

The net requested increase of $5.8 million is comprised of the following changes:

-- $0.4 million increase for repairs and improvements to the Main Treasury Building;

-- $0.5 million increase for automated information systems requirements;

-- $0.3 million increase for annualization of the January 1990 pay raise;

-- $2.1 million increase for the FY 1991 pay costs; and

-- $1.7 million increase for inflationary cost increases of current services.

-- $0.8 million increase for the Digital Telecommunications System.

Department of the Treasury

[OFFICE OF THE SECRETARY] DEPARTMENTAL OFFICES

Federal Funds

General and Special Funds:

SALARIES AND EXPENSES

For necessary expenses of the [Office of the Secretary] Departmental Offices including operation and maintenance of the Treasury Building and Annex; hire of passenger motor vehicles; not to exceed $22,000 for official reception and representation expenses; not to exceed $200,000 for unforseen emergencies of a confidential nature, to be allocated and expended under the direction of the Secretary of the Treasury and to be accounted for solely on his certificate; [not less than $2,000,000 and forty full-time permanent positions for the Office of Foreign Assets Control;] not to exceed $1,649,000, to remain available until expended, for systems modernization requirements; not to exceed [$573,000] $1,000,000, to remain available until expended, for repairs and improvements to the Main Treasury Building and Annex, [$58,081,000] $63,083,000. (Treasury Department Appropriations Act, 1990.)

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Detail of Permanent Positions By Category
(Number of Full-Time Equivalent Positions)

	Actual FY 1989 1/	Estimated FY 1990	Estimated FY 1991	Increase/Decrease for FY 1991 Total Changes	Increase/Decrease for FY 1991 Program Increases	Increase/Decrease for FY 1991 Other Changes
Statutory executive positions	13	13	13	0	0	0
Policy/program professional staff	185	176	176	0	0	0
Administrative staff	330	314	314	0	0	0
Secretarial and clerical	167	160	160	0	0	0
Crafts and custodial	43	45	45	0	0	0
Subtotal	738	708	708	0	0	0
Part-time & temporary full-time equivalent positions	20	20	20	0	0	0
Total full-time equivalent positions	758	728	728	0	0	0

1/ Includes 63 Office of Inspector General FTEs.

Departmental Offices, Salaries and Expenses

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to Congressional action on the FY 1990 President's Budget Request and as a result of other workload and cost changes, Departmental Offices proposes the following adjustments in FY 1990 spending ($000):

	Object Classification	Original President's Budget	+ or - Congressional Action	+ or - Sequester	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9	Permanent Positions	31,689	(90)	(422)	1,768	32,945
12.0	Personnel Benefits	5,034	(15)	(67)	746	5,698
13.0	Benefits Form. Pers.	0	0	0	26	26
21.0	Total Travel	661	50	(9)	9	711
22.0	Total Transportation	120	0	(2)	14	132
23.1	GSA Rent	1,320	0	(18)	18	1,320
23.2	Other Rent	141	0	(2)	(2)	137
23.3	Other Rents, Comm. & Util	6,940	0	(93)	(263)	6,584
24.0	Printing	854	0	(11)	201	1,044
25.0	Total Other Services	9,402	(222)	(122)	(3,490)	5,568
26.0	Total Supplies	796	0	(11)	300	1,085
31.0	Total Equipment	551	288	(11)	666	1,494
32.0	Land and Structures	573	(11)	(7)	7	562
	Total	58,081	0	(775)	0	57,306
	Activity					
	Secretarial Policy and Program Development	21,616	701	(298)	1,349	23,368
	Departmental Management and Administration	26,151	(503)	(342)	(273)	25,033
	Building Maintenance and Operations	9,741	(187)	(127)	(1,084)	8,343
	Repairs and Improvements	573	(11)	(8)	8	562
	Total	58,081	0	(775)	0	57,306

02/12/90 (revised)

DO,S&E-1

Explanation of Congressional Action

Public Law 101-136 requires that not less than $2,000,000 and forty full-time permanent positions be allocated to the Office of Foreign Assets Control. Reduction in other activities required to finance this allocation are reflected on the preceding page.

Explanation of Sequester

The sequester imposed by P.L. 99-177 is taken across the board by program, project and activity as specified by House and Senate report language.

Explanation of Reprogrammings

The FY 1990 cost of the FY 1990 pay raise was absorbed in the Other Services object classification. The areas to be reduced in this object class include training, maintenance, and Automatic Data Processing costs such as equipment maintenance, studies, software, and supplies. To minimize the impact of sequester on important Departmental Offices operations, a reprogramming is proposed to direct the sequestered amount against the Other Rents, Communications and Utilities object class for Departmental Offices' payment for the Digital Telecommunications System. Funds in other object classifications were realigned based on actual FY 1989 experience and revised FY 1990 requirements.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

Secretarial Policy and Program Development - This activity encompasses those organizations that directly support the Secretary and other senior officials in formulating and analyzing domestic economic policy and in overseeing its implementation. The primary responsibilities of these offices include: formulating and recommending United States' domestic tax and economic policy; monitoring domestic financial operations of the Government, including government financing, capital markets policy, intergovernmental fiscal and debt management; overseeing fiscal operations of the United States Government; providing legal counsel for the Departmental Offices and overseeing the legal staff of the entire Department; serving as legislative liaison and coordinating media and public affairs; and overseeing Treasury's law enforcement responsibilities.

In response to Congressional direction contained in the Conference Report (House Report #101-276) accompanying Public Law 101-136, a separate sub-activity for the Office of Foreign Assets Control has been identified for FY 1990. For FY 1990 the Department was directed to make available not less than $2,000,000 and 40 full-time permanent positions in the Salaries and Expenses appropriation for this office. Reductions in other activities required to finance this allocation are reflected in the preceding chart.

There are no program increases requested for this activity in FY 1991.

Absorption of the FY 1990 pay raise as required by Section 530 of the Appropriations Act in FY 1990 will be met through reductions in the Other Services object classification.

Also included in this activity for FY 1991 are non-program adjustments for inflationary cost increases, annualization of the FY 1990 pay raise, the cost of FY 1991 pay raises, one additional compensable work-day and other changes anticipated for FY 1991.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	FY 1991 Request FTE Pos.	Amount
Secretarial Policy and Program Development:		
a. Executive Direction.....	19	$1,353
b. Public, Legislative, and Intergovernmental Affairs....	46	2,418
c. Legal Staff.....	52	3,507
d. Enforcement.....	23	1,816
e. Office of Foreign Assets Control	40	2,212
f. Tax Policy.....	117	6,988
g. Under Secretary for Finance 1/.	103	6,626
h. Treasurer.....	3	188
Total.....	403	$25,108

1/ Includes resources for the Under Secretary for Finance and the Assistant Secretaries for Fiscal Policy, Economic Policy, and Domestic Finance.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

Departmental Management and Administration - The operations conducted within this activity are concerned with the dual responsibility of providing overall administrative control and guidance to the Treasury Department bureaus and a broad range of administrative services to the Departmental Offices as a separate bureau of the Department. At the Departmental level, this activity includes the general oversight and management provided by the Assistant Secretary (Management) in the areas of Departmental budget, procurement, and personnel policy and coordination; oversight of the Department's information systems development; and analysis of general program operations throughout the Department. At the bureau level, services such as budget and accounting, payroll, personnel management, records management, procurement operations, computer operations and automated data processing development are performed.

A program increase of $539,000 is requested for this activity. This request is for: (1) continuing basic services on the Unisys; (2) maintaining a reasonable response to user problems via the Hotline services; and (3) completing a portion of the critical phase of the Securities Data Systems. Increases for the Unisys Operating Expenses and the Computer Hotline also appear in the International Affairs appropriation. These increases are discussed below:

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

(1) $433,000 FOR UNISYS OPERATING EXPENSES -- Beginning in FY 1991, all expenses for maintenance of Departmental Offices' Unisys computer system must be covered by direct funding, rather than by both reimbursable and direct funding as in previous years.

Currently, the Departmental Offices' Computer Data Center includes a Unisys 1100/82 mainframe computer system, which is located in the basement of the Main Treasury Building and is managed by the Automated Systems Division. The Unisys system is obsolete and does not support newer, more productive data processing technology. Because of the obsolescence of the technology of the Unisys, reimbursable and Departmental Offices' customers have been steadily decreasing their usage of the system in favor of state-of-the-art technology available at other sites outside of Departmental Offices. As a result of this migration, currently the Unisys system has only 30% utilization. This decrease in usage has substantially reduced the reimbursable income available to fund the expenses associated with maintaining the Unisys.

However, there remains on the system a number of small but very critical applications which require the core system configuration to be maintained. For example, the Departmental Offices' financial management system, which is in the process of being replaced by a new system through a cross-servicing arrangement with the Financial Management Service, is one of the systems still operating on the Unisys. The new financial management system is scheduled to be implemented at the beginning of FY 1991, but the current Unisys-based system will be required after the cut-over to support historical records.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

(2) $44,000 FOR THE COMPUTER HOTLINE -- The Computer Hotline Service provides office automation hardware and software services for approximately 730 of Departmental Offices' staff supported by the Salaries and Expenses appropriation. More than 4,400 pieces of office automation equipment are assigned to this staff. The Hotline service is provided by contract personnel as part of a comprehensive facilities management service contract. As more and more users are becoming active in desktop computing and as the age of most of the equipment now exceeds the life-cycle, requests from program offices for equipment maintenance and service as well as technical software support continue to increase dramatically. This demand has severely reduced the ability of the Hotline program to maintain basic services to the user community, resulting in unacceptable delays in providing critical equipment servicing and software assistance. To meet this escalating demand for service, an increase of $44,000 is requested in FY 1991 to fund additional contractual support.

(3) $62,000 FOR THE SECURITIES DATA SYSTEM -- Phase I of the Securities Data System for the Office of Domestic Finance was implemented during FY 1989 to replace three independent, antiquated securities management systems which had been operating on the Unisys 1182 system. The Securities Data System was developed using ORACLE software on the VAX cluster which is located in the Departmental Offices Computer Data Center. The system provides analysis and policy information vital to the successful management of Treasury securities. Phase I provides for comprehensive data collection and statistical analysis; Phase II will give the securities data system full functionality through a subsystem of comprehensive reporting compatibilities. The requirements analysis and system design portions of Phase II will be completed in FY 1990. The balance of Phase II, the programming, testing, and implementation of the new reporting subsystem, is scheduled for FY 1991. A funding increase of $62,000 is required for the completion of Phase II in FY 1991 to acquire necessary contract support services.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

Absorption of the FY 1990 pay raise in FY 1990 will be met through reductions in the Other Services object classification.

Also included in this activity for FY 1991 are non-program adjustments for inflationary cost increases, annualization of the FY 1990 pay raise, the cost of FY 1991 pay raises, one additional compensable work-day and other changes anticipated for FY 1991.

A summary of the budget levels required for this activity is shown in the following table:

(Dollars in thousands)

	FY 1991 Request FTE Pos.	Amount
Departmental Management and Administration:		
a. Assistant Secretary (Management).....	13	$ 822
b. Departmental Finance & Management.....	100	6,864
c. Departmental Information Systems.....	19	1,380
d. Administration.....	148	17,917
Total.....	280	$26,983

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

Buildings Maintenance and Operations - Under the Federal Property and Administrative Services Act of 1949 (as amended), the Treasury Department has direct operational control over the Main Treasury Building and Annex. Within this activity such functions as painting, plastering, mechanical and janitorial services are performed. Funds are also budgeted for payments for space rental and utilities costs. In addition, this activity reflects the responsibilities of the Curator, which include: care and maintenance of the historic Treasury furniture and painting collection as well as documentation and preservation of the historic Main Treasury Building and Annex.

No program increases are requested for this activity in FY 1991.

Absorption of the FY 1990 pay raise in FY 1990 will be met through reductions in the Other Services object classification.

Also included in this activity for FY 1991 are non-program adjustments for inflationary cost increases, annualization of the FY 1990 pay raise, the cost of the FY 1991 pay raise, one additional compensable work-day and other changes anticipated for FY 1991.

An increase of $775,000 is also requested for Departmental Offices' payment for the Digital Telecommunications System. The Digital Telecommunications System is a program to modernize Treasury Telecommunications in the Washington Metropolitan area. Because of delays in contract award, it was possible to assess a reduction (necessitated by sequester) against this program in FY 1990. To assure timely program delivery in Fiscal Year 1991 restoration of the $775,000 is requested.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	FY 1991 Request FTE Pos.	Amount
Buildings Maintenance and Operations:		
a. Facilities Management	45	$ 2,465
b. Space and Utilities	---	7,538
Total	45	$10,003

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

Repairs and Improvements - The long range goals/objectives of the Repairs and Improvements program are to repair and make selected improvements to the Main Treasury and Annex buildings. Both buildings have been in continuous use since their construction (1842 for Main Treasury and 1919 for the Annex) and are designated as national historic landmarks.

Treasury has responsibility for repairs and improvements to the Main Treasury and Annex buildings. In 1985, Departmental Offices implemented a program to improve the environment of one of our most important resources, the Main Treasury and Treasury Annex buildings. This intensive program includes eliminating tons of asbestos and PCB in electrical transformers; repairing numerous water leaks; removing pigeon excrement; making the cooling towers safe; ensuring clean drinking water and healthy air; installing safety night lights; and repairing sidewalks. Additionally, plans have been made to remove fire hazards and rodent/roach infestations from the Main Treasury Building.

The underlying objective of the Repairs and Improvements program is to continue a consistent and systematic maintenance program to make our buildings and associated operational systems safe over a period of time. We believe in using funds wisely and on targeted goals, asking for small amounts of regular funding to avoid large repair costs in the future. Accordingly, we are requesting funds in FY 1991 to demolish an unsafe and unhealthy area of the Main Treasury building and restore the area to its original configuration.

The present Treasury cafeteria is housed in a 100-year old wooden structure in the South Courtyard of the Main Treasury Building. It consists of 10,000 square feet in what was intended as a temporary building. Its wood structure, which has rotted out, makes the building a fire hazard, and its plumbing and electrical wiring are antiquated. These problems, and the fact that the building is roach and rodent infested, make it unsuitable for use as office or other space. Accordingly, a new cafeteria will be opened in the Treasury Annex Building in FY 1990.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

A program increase of $427,000 is requested for this activity. The total FY 1991 request ($562,000 in base funding plus a $427,000 increase) will provide for demolition of the old cafeteria and restoration of the South Courtyard to its original configuration. Demolition of the deteriorated cafeteria and restoration of the South Courtyard to its original configuration will remove a serious fire, safety, and health hazard. All Departmental Offices' organizations, visitors from other offices, and the public will benefit from the demolition and restoration activity funded by the requested increase.

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	FY 1991 Request	
	FTE Pos.	Amount
Repairs and Improvement	---	$ 989

Departmental Offices, Salaries and Expenses

OTHER CHANGES
(Dollars in Thousands)

Total Other Changes	$4,036
Adjustments necessary to maintain current levels	$4,036
1. Annualization of January 1990 Pay Act Increases	$ 332

This amount represents one-quarter of the FY 1990 base amount for the January 1990 pay raise which was effective for three-quarters of the year in FY 1990. The amount includes the cost of salaries and benefits. The computation was based on the FY 1990 financial plan for salaries and benefits multiplied by 3.6% for one-quarter of the year.

2. Increased Cost for Proposed FY 1991 Pay Raise	$ 813

This amount reflects the cost of salaries and benefits for three-quarters of the year for a proposed 3.5% pay raise. This computation was based on the FY 1990 financial plan for salaries and benefits (exclusive of EX/SES Compensation) multiplied by 3.5% for three-quarters of the year.

3. Increased Costs for EX/SES Pay Raise (P.L. 101-194)	$1,241

This amount reflects the cost of salaries and benefits for increases pursuant to P.L. 101-194. The amount was derived by calculating the pay raise for SES and EX level authorized positions. Benefits of 20% were also included.

4. Increased Cost for Additional Compensable Day..... $144

This amount reflects the increased cost of salaries and benefits for one additional compensable day in FY 1991.

5. Increased Cost of Health Insurance..... $113

The Office of Personnel Management (OPM) projects a general increase of 15% for agency contributions to employee health benefits. The amount was derived by multiplying the FY 1990 financial plan base by 15%.

6. Increased Cost of All Other Benefits..... $ 82

This amount was derived by multiplying the FY 1990 financial plan base by an inflationary factor of 4.2%.

7. Increased Cost of Workers Compensation..... $ 25

This increase represents the actual 1989 Workers' Compensation Fund billing that will be paid in FY 1991 over the $394,000 budgeted for FY 1990.

8. Increased Cost of Travel and Transportation of Persons..... $ 29

A 4.2% inflationary factor was used for all travel costs.

9. Increased Cost of Transportation of Things..... $ 4

Includes increased costs for inflation.

10. Increased Cost of Rent, Communications and Utilities..... $816

This represents a net adjustment consisting primarily of an increase of $526,000 over the FY 1990 Digital Telecommunication Systems payment and a decrease of $36,000 for Federal Telecommunications Systems costs. In addition, there is an increase over the FY 1990 cost for the National Communication System, and an inflationary factor increase of 4.2% for all other rents, communications and utilities.

11. Increased Cost of Printing and Reproduction..... $ 73

The Government Printing Office (GPO) projects a 7% increase for printing and graphics costs.

12. Increased Cost of Other Services..... $270

This consists of both an increase and a decrease. A decrease of $5,000 reflects the anticipated savings under the new payroll system in FY 1991. An inflation factor has been applied to all other services after reprogramming.

13. Increased Cost of Supplies and Materials..... $ 56

An inflation factor has been applied to the FY 1990 base for supplies and materials.

14. Increased Costs of Equipment..... $ 38

An inflation factor has been applied to the FY 1990 base for equipment.

Standard Classification Schedule
(Direct Obligations only, $000)

	FY 1989 Actual 1/	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	862	766	766	0
Full Time Equivalent (FTE) Workyears	758	728	728	0
Object Classification		(Dollars in thousands)		
Personnel compensation:				
Permanent positions	31,254	31,744	33,887	2,143
Positions other than permanent	892	684	686	24
Other personnel compensation	553	504	504	0
Special personal services payments	158	33	33	0
Total personnel compensation	32,857	32,945	35,112	2,167
Personnel benefits	5,504	5,698	6,281	583
Benefits for former personnel	26	26	26	0
Travel and transportation of persons	334	711	740	29
Transportation of things	120	132	136	4
Rents, communications and utilities:				
Rental Payments to GSA	973	1,320	1,378	58
Rental payments to others	136	137	144	7
Other rents, communications and utilities	4,416	6,584	8,176	1,592
Printing and reproduction	1,043	1,044	1,117	73
Other services	5,022	5,568	6,311	743
Supplies and materials	1,108	1,085	1,141	56
Equipment	2,248	1,494	1,532	38
Lands and structures	781	2,030	989	(1,041)
Insurance claims and indemnities	0	0	0	0
Total obligations	54,570	58,774	63,083	4,309
Unobligated Balance Lapsing	269	---	---	---
Obligations of prior year funds	(208)	(1,468)	0	1,468
Total actual obligations, proposed authorized level and budget estimate	54,631	57,306	63,083	5,777

1/ Includes resources for the Office of Inspector General.

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DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual 1/	FY 1990 Authorized	FY 1991 Estimated
Executive Level 1	1	1	1
Executive Level 2	1	1	1
Executive Level 3	1	1	1
Executive Level 4	10	10	10
Executive Level 5	0	0	0
Subtotal	13	13	13
Senior Executive Service Level 6	2	2	2
Senior Executive Service Level 5	3	3	3
Senior Executive Service Level 4	32	32	32
Senior Executive Service Level 3	10	10	10
Senior Executive Service Level 2	10	10	10
Senior Executive Service Level 1	11	11	11
Subtotal	68	68	68
GS-18	0	0	0
GS-17	0	0	0
GS-16	0	0	0
GS/GM-15	130	123	123
GS/GM-14	134	124	124
GS/GM-13	93	86	86
GS-12	55	37	37
GS-11	45	40	40
GS-10	16	16	16
GS-9	90	82	82
GS-8	54	55	55
GS-7	77	57	57
GS-6	40	37	37
GS-5	24	18	18
GS-4	5	3	3
GS-3	3	2	2
GS-2	0	0	0
Subtotal	736	640	640
Ungraded	45	45	45
Total permanent positions	882	798	798
Unfilled positions, end of year	178	---	---
Total permanent employment, end of year	684	798	798

1/ Includes positions authorized for the Office of Inspector General

1/29/90

[illegible]

[illegible]

[illegible]

	Permanent Positions	FTE	Amount ($000)
[illegible]	371	344	35,849
Adjustments:			
[illegible]	0	0	0
[illegible]	0	0	0
[illegible]	0	0	(600)
[illegible]	0	0	0
[illegible]	371	344	35,249
[illegible]	371	344	37,317

[illegible]

Activity	Actuals FY 1999		Authorized Level FY 2000		Budget Estimate FY 2001		Increase (+) or Decrease (-) for FY 2001					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. [illegible]	29	5,040	29	5,169	29	5,291	0	122	0	0	0	122
2. [illegible]	0	0	0	0	0	0	0	0	0	0	0	0
3. [illegible]	231	14,284	211	13,276	211	13,450	0	1,251	0	750	0	501
4. [illegible]	29	5,276	29	4,291	29	5,172	0	454	0	335	0	319
5. [illegible]	29	2,753	22	3,229	29	3,201	0	497	0	0	0	497
6. [illegible]	0	0	0	0	0	0	0	0	0	0	0	0
[illegible]	—	0	—	0	—	—	0	0	0	0	0	0
[illegible]	—	0	—	0	—	—	0	0	0	0	0	0
[illegible]	—	200	—	0	—	—	0	0	0	0	0	0
Total appropriation, authorized level and budget estimate	240	34,000	241	34,000	241	37,317	0	3,327	0	1,554	0	1,773
Permanent positions	254	—	271	—	271	—	0	—	0	—	0	—

[illegible]

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DETAIL OF AVERAGE GRADES AND SALARIES

	Actual FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES salary	$73,746	$76,409	$89,240
Average GS grade	11.21	11.27	11.27
Average GS salary	$37,486	$39,922	$41,608
Average salary of ungraded positions	$26,070	$25,200	$26,067

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED

(Dollars in thousands)

	Activity 1			Activity 3			Activity 4			Activity 5			Total		
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
Program Changes:															
1. International Affairs	—	—	—	—	—	788	—	—	—	—	—	—	0	0	788
2. Automated Information Systems	—	—	—	—	—	—	—	—	266	—	—	—	0	0	266
Total, Program Changes	0	0	0	0	0	788	0	0	266	0	0	0	0	0	1,054
Other Changes:															
Adjustments Necessary to Maintain Current Levels:															
1. Annualization of FY 1990 Pay Act Increases	—	—	25	—	—	101	—	—	29	—	—	10	—	—	161
2. Increased Cost for Proposed FY 1991 Pay Raise	—	—	63	—	—	247	—	—	87	—	—	29	—	—	406
3. Increased Costs for EX/SES pay raise (P.L. 101-194)	—	—	59	—	—	389	—	—	15	—	—	0	—	—	492
4. Increased Cost for Additional Compensable Day	—	—	0	—	—	44	—	—	15	—	—	3	—	—	66
5. Increased Cost of Health Insurance	—	—	3	—	—	36	—	—	15	—	—	6	—	—	58
6. Increased Cost of All Other Benefits	—	—	3	—	—	27	—	—	12	—	—	3	—	—	45
7. Increased Cost of Travel and Transportation of Persons	—	—	3	—	—	14	—	—	3	—	—	2	—	—	22
8. Increased Cost of Transportation of Things	—	—	1	—	—	1	—	—	2	—	—	0	—	—	4
9. Increased Cost of Rent, Communications and Utilities	—	—	0	—	—	0	—	—	3	—	—	96	—	—	99
10. Increased Cost of Printing and Reproduction	—	—	0	—	—	0	—	—	10	—	—	0	—	—	10
11. Increased Cost of Other Services	—	—	0	—	—	27	—	—	33	—	—	12	—	—	72
12. Increased Cost of Supplies and Materials	—	—	3	—	—	7	—	—	3	—	—	6	—	—	19
13. Increased Cost of Equipment	—	—	0	—	—	0	—	—	18	—	—	12	—	—	29
Subtotal, Adjustments Necessary to Maintain Current Levels	0	0	185	0	0	902	0	0	219	0	0	177	0	0	1,483
Increased requirements for Telecom support	—	—	0	—	—	0	—	—	0	—	—	320	—	—	320
Total, Other Changes	0	0	185	0	0	902	0	0	219	0	0	497	0	0	1,773
Total, Increases or decreases compared with FY 1990 Authorized Level	0	0	185	0	0	1,691	0	0	484	0	0	497	0	0	2,837

Departmental Offices, International Affairs

SUMMARY JUSTIFICATION OF FY 1991 INTERNATIONAL AFFAIRS BUDGET ESTIMATES

General Statement

The Departmental Offices' function in the Treasury Department provides basic support to the Secretary of the Treasury, who is the chief operating executive of the Department. The Secretary of the Treasury maintains the primary role in formulating and managing the international tax and financial policies of the Federal Government. The Secretary's responsibilities funded by the International Affairs appropriation include: recommending and implementing United States' international economic and tax policy; managing development financing policy; representing the United States on international monetary, trade and investment issues; overseeing Treasury Department overseas operations; and directing the general administrative operations of the Treasury Department.

In support of the Secretary, the International Affairs appropriation provides resources for policy formulation and implementation in the areas of international financial, tax trade and investment issues. This appropriation also provides resources for comprehensive administrative support to the Secretary and policy components, and coordination of Departmental administrative policies in financial and personnel management, procurement operations, automated information systems, and telecommunications.

The operations of the Departmental Offices' International Affairs appropriation are comprised of the following major activities:

1. Secretarial Policy and Program Development - This activity includes the policy offices responsible for policy management and intelligence support, international legal counsel, and international tax policy.

SUMMARY JUSTIFICATION OF FY 1991 INTERNATIONAL AFFAIRS BUDGET ESTIMATE (continued)

2. Inspector General - Consistent with P.L. 100-504, the Statutory Inspector General Act Amendment, this activity has been transferred to, and will henceforth report as, a separate appropriation account. This activity has never been financed by the International Affairs appropriation. It is listed here only to maintain consistency with the budget activity structure of the Salaries and Expenses appropriation.

3. International Affairs - This activity covers a wide range of policy development and analysis functions involving international trade and investment, international monetary affairs, development financing and debt policy, economic issues including resource and commodity policy, balance of payments, and major reports of economic data.

4. Departmental Management and Administration - This activity provides support services associated with general administrative management, oversight of Treasury bureaus and the administration of the Departmental Offices function. These responsibilities include: financial management, personnel management, program and management analysis, procurement operations, telecommunication and information systems, equal employment opportunity programs, automated systems development and management, and other administrative activities.

5. Buildings Maintenance and Operations - Under the Federal Property and Administrative Services Act of 1949 (as amended), the Treasury Department has direct operational control over the Main Treasury Building and Annex. Services that otherwise would be provided by the General Services Administration (such as maintenance and utility services) are provided for Treasury directly through the International Affairs appropriation. This activity includes the staff and funding needed to conduct these operations.

6. Repairs and Improvements - This activity is financed in the Salaries and Expenses appropriation. It is listed here only to maintain consistency with the budget activity structure of the Salaries and Expenses appropriation.

SUMMARY JUSTIFICATION OF FY 1991 INTERNATIONAL AFFAIRS BUDGET ESTIMATES (continued)

The FY 1991 budget requirement for the Departmental Offices' International Affairs Appropriation includes 371 authorized positions, 341 full-time equivalent (FTE) positions, and $27.5 million -- an increase of $2.8 million from the resource levels provided for FY 1990. The Departmental Offices' FY 1991 International Affairs budget request reflects Presidential initiatives to restrain spending wherever possible, reduce the level of Federal civilian employment, utilize available staff to perform required workloads, and fund increases only in the highest priority areas.

The net requested increase of $2.8 million is comprised of the following changes:

-- $0.8 million for International Affairs program increases;

-- $0.3 million increase for automated information systems requirements;

-- $0.1 million increase for annualization of the January 1990 pay raise;

-- $0.9 million increase for the FY 1991 pay costs; and

-- $0.4 million increase for inflationary cost increases of current services.

-- $0.3 million increase for telecommunications support costs.

Department of the Treasury

[OFFICE OF THE SECRETARY] DEPARTMENTAL OFFICES

Federal Funds

General and Special Funds:

INTERNATIONAL AFFAIRS

For necessary expenses of the international affairs function of the [Office of the Secretary] Departmental Offices, including operation and maintenance of the Treasury Building and Annex; hire of passenger motor vehicles; maintenance, repairs, and improvements of, and purchase of commercial insurance policies for, real properties leased or owned overseas, when necessary for the performance of official business; not to exceed $2,000,000 for official travel expenses; and not to exceed $73,000 for official reception and representation expenses; [$25,010,000] $27,517,000. (Treasury Department Appropriation Act, 1990.)

Detail of Permanent Positions By Category
(Number of Full-Time Equivalent Positions)

	Actual FY 1989	Estimated FY 1990	Estimated FY 1991	Increase/Decrease for FY 1991 Total Changes	Increase/Decrease for FY 1991 Program Increases	Increase/Decrease for FY 1991 Other Changes
Statutory executive positions	2	2	2	0	0	0
Policy/program professional staff	154	153	153	0	0	0
Administrative staff	68	69	69	0	0	0
Secretarial and clerical	92	91	91	0	0	0
Crafts and custodial	20	20	20	0	0	0
Subtotal	336	335	335	0	0	0
Part-time & temporary full-time equivalent positions	6	6	6	0	0	0
Total full-time equivalent positions	342	341	341	0	0	0

Departmental Offices, International Affairs

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to Congressional action on the FY 1990 President's Budget Request and as a result of other workload and cost changes, Departmental Offices proposes the following adjustments in FY 1990 spending ($000):

	Object Classification	Original President's Budget	+ or - Congressional Action	+ or - Sequester	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9	Permanent Positions	15,434	0	(197)	(11)	15,226
12.0	Personnel Benefits	2,637	0	(34)	287	2,890
13.0	Benefits Form. Pers.	0	0	0	13	13
21.0	Total Travel	505	0	(6)	6	505
22.0	Total Transportation	131	0	(2)	(64)	65
23.1	GSA Rent	278	0	(4)	4	278
23.2	Other Rent	30	0	0	33	63
23.3	Other Rents, Comm. & Util	2,642	0	(34)	(453)	2,155
24.0	Printing	116	0	(2)	33	147
25.0	Total Other Services	2,591	0	(33)	551	3,109
26.0	Total Supplies	244	0	(3)	(75)	166
31.0	Total Equipment	402	0	(5)	(324)	73
32.0	Land and Structures	0	0	0	0	0
	Total	25,010	0	(320)	0	24,690
	Activity					
	Secretarial Policy and Program Development	3,096	0	(40)	110	3,166
	International Affairs	13,979	0	(179)	179	13,979
	Departmental Management and Administration	3,412	0	(43)	1,322	4,691
	Building Maintenance and Operations	4,523	0	(58)	(1,611)	2,854
	Total	25,010	0	(320)	0	24,690

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Explanation of Congressional Action

The FY 1990 full-year appropriation was the same as the FY 1990 President's Budget Request.

Explanation of Sequester

The sequester imposed by P.L. 99-177 is taken across the board by program, project and activity as specified by House and Senate report language.

Explanation of Reprogramming

The FY 1990 cost of the FY 1990 pay raise was absorbed in the Rent, Communication and Utilities and Equipment object classifications. The area to be reduced in the Rent, Communication and Utilities object class is primarily the payment to the Working Capital Fund where the costs were less than previously anticipated. Computer equipment purchases will be curtailed to accommodate the balance of the pay raise costs. To minimize the impact of sequester on important Departmental Offices operations, a reprogramming is proposed to direct the sequestered amount against the Other Rents, Communications and Utilities object class for telecommunications services. Funds in other object classifications were realigned based on actual FY 1989 experience and revised FY 1990 requirements.

Departmental Offices, International Affairs

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

Secretarial Policy and Program Development - This activity encompasses those organizations that support the Secretary and other senior officials in formulating and analyzing international tax and economic policy and in overseeing its implementation. The primary responsibilities of these offices include: formulating and recommending United States' international tax and economic policy, providing policy management, intelligence support and legal counsel for the Departmental Offices, and overseeing the legal staff of the entire Department.

No program increases are requested for this activity in FY 1991.

Absorption of the FY 1990 pay raise in FY 1990 will be met through reductions in the Rent, Communications and Utilities and Equipment object classifications.

Included in this activity for FY 1991 are non-program adjustments for inflationary cost increases, annualization of the FY 1990 pay raise, the cost of FY 1991 pay raises, one additional compensable work-day and other changes anticipated for FY 1991.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	FY 1991 Request FTE Pos.	Amount
Secretarial Policy and Program Development:		
a. Executive Direction.....	17	$1,007
b. Public, Legislative, and Intergovernmental Affairs....	--	--
c. Legal Staff.....	16	829
d. Enforcement.....	--	--
e. Office of Foreign Asset Control	--	--
f. Tax Policy.....	21	1,495
g. Under Secretary for Finance 1/.	--	--
h. Treasurer.....	--	--
Total.....	54	$ 3,331

1/ Includes resources for the Fiscal Policy, Economic Policy, and Domestic Finance.

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EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

International Affairs - This activity includes those offices responsible for providing staff analysis and support for the Secretary and other senior officials involved in formulating and implementing international economic and financial policies. The issues involved within this activity include: international monetary affairs; international development financing policy; United States' policy toward and participation in the work of the various international financial organizations; international economic analysis; international trade and investment policy; financial aspects of commodities and natural resources policy; and relations with the oil-producing countries of the Arabian peninsula.

The long range goals/objectives of the offices of the Under Secretary and Assistant Secretary for International Affairs are to provide informed policy advice and assistance to the Secretary in discharging his responsibilities for United States' international economic policy and representing United States' interests to the various international financial organizations. The Under Secretary's and Assistant Secretary's activities include a wide range of policy development and analysis functions involving international trade and investment, international monetary affairs, development financing and debt policy, and a broad range of other international economic issues, including resource and commodity policy, balance of payments, and major reports of economic data. The requested increases for FY 1991 relate directly to the Offices' responsibilities for reporting economic data and representing United States' economic interests in the international financial community.

A program increase of $789,000 is requested for this activity. This request is for:

(1) An increase of $150,000 is required to fund a Congressionally mandated "comprehensive benchmark survey of foreign portfolio investment in the United States" (22 U.S.C. 3103 (c)). Such a survey is required "at least once every five years" by law. The last survey incorporated data through December 31, 1984. The proposed survey will incorporate data through December 31, 1989. Associated costs include expenditures for data entry and ADP contracting, printing, and supplies. Additionally, in lieu of requesting additional FTEs and financing for the associated costs, present staff will obtain commercially available computer tapes for ADP processing, e.g., tapes providing securities data for various items required in the survey.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

(2) An increase of $639,000 is requested to finance continuing inflationary increases (not caused by program expansion) in mandatory, non-discretionary overseas costs, including foreign service living and quarters allowance, education allowance, overseas housing and utilities, transportation of household goods, and administrative services provided by the State Department. Funding for these highly inflationary requirements is not provided within the deflator factor as an MCL (Maintaining Current Level) increase. However, these requirements are not discretionary, and they do not represent program expansion.

Absorption of the FY 1990 pay raise in FY 1990 will be met through reductions to Rents, Communications and Utilities and Equipment object classifications.

Included in this activity for FY 1991 are non-program adjustments for inflationary cost increases, annualization of the FY 1990 pay raise, the cost of FY 1991 pay raises, one additional compensable work-day and other changes anticipated for FY 1991.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	FY 1991 Request FTE Pos.	Amount
International Affairs:	211	$15,660

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

Departmental Management and Administration - The operations conducted within this activity are concerned with the dual responsibility of providing overall administrative control and guidance to the Treasury Department bureaus and a broad range of administrative services to the Departmental Offices as a separate bureau of the Department. At the Departmental level, this activity includes the general oversight and management provided by the Assistant Secretary (Management) in the areas of Departmental budget, procurement, and personnel policy and coordination; oversight of the Department's information systems development; and analysis of general program operations throughout the Department. At the bureau level, services such as budget and accounting, payroll, personnel management, records management, procurement operations, computer operations and automated data processing development are performed.

A program increase of $265,000 is requested for this activity. This request is for: (1) Continuing basic services on the Unisys; (2) maintaining a reasonable response to user problems via the Hotline service; and (3) replacing an unreliable, obsolete intelligence information management system in the Office of Intelligence Support. Increases for the Unisys operating Expenses and the Computer Hotline also appear in the Salaries and Expenses appropriation. These increases are discussed below:

(1) $97,000 FOR UNISYS OPERATING EXPENSES -- Beginning in FY 1991, all expenses for maintenance of Departmental Offices Unisys computer system must be covered by direct funding, rather than by both reimbursable and direct funding as in previous years.

Currently, the Departmental Offices' Computer Data Center includes a Unisys 1100/82 mainframe computer system, which is located in the basement of the Main Treasury Building and is managed by the Automated Systems Division. The Unisys system is obsolete and does not support newer, more productive data processing technology. Because of the obsolescence of the technology of the Unisys, reimbursable and Departmental Offices' customers have been steadily decreasing their usage of the system in favor of state-of-the-art technology available at other sites outside of Departmental Offices. As a result of this migration, currently the Unisys system has only 30% utilization. This decrease in usage has substantially reduced the reimbursable income available to fund the expenses associated with maintaining the Unisys.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

However, there remains on the system a number of small but very critical applications which require the core system configuration to be maintained. For example, the Departmental Offices' financial management system, which is in the process of being replaced by a new system through a cross-servicing arrangement with the Financial Management Service, is one of the systems still operating on the Unisys. The new financial management system is scheduled to be implemented at the beginning of FY 1991, but the current Unisys-based system will be required after the cut-over to support historical records.

(2) $10,000 FOR THE COMPUTER HOTLINE -- The Computer Hotline Service provides office automation hardware and software services for approximately 340 of Departmental Offices' staff supported by the International Affairs appropriation. More than 2,100 pieces of office automation equipment are assigned to this staff. The Hotline service is provided by contract personnel as part of a comprehensive facilities management service contract. As more and more users are becoming active in desktop computing and as the age of most of the equipment now exceeds the life-cycle, requests from program offices for equipment maintenance and service as well as technical software support continue to increase dramatically. This demand has severely reduced the ability of the Hotline program to maintain basic services to the user community, resulting in unacceptable delays in providing critical equipment servicing and software assistance. To meet this escalating demand for service, an increase of $10,000 is requested in FY 1991 to fund additional contractual support.

(3) $158,000 FOR REPLACEMENT OF INTELLIGENCE SUPPORT'S WANG COMPUTER SYSTEM -- The Office of Intelligence Support uses a Tempest Wang Alliance computer system to perform office automation functions for classified processing requirements. The system is a multi-user, minicomputer-based office automation system composed of four central processing units, six disk drives, system printers, and fourteen Wang terminals. A modernization project was begun in 1987 with the installation of a separate, special-use computer system to handle the processing of

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

classified message traffic received from the Departmental Offices' Telecommunications Center. The second phase of that project is the replacement of the Wang Alliance office automation system. Phase two calls for replacing the obsolete, unreliable existing system with a new system that will provide state-of-the-art office automation technology, comparable to that currently available for the classified message processing.

Because of funding restrictions, replacement of the Wang-based system has been delayed and the system is dangerously past its life cycle. Performance reliability is poor and the vendor is reluctant to perform additional maintenance. Any further delays in installing a replacement system will jeopardize the day-to-day operation of a critical Departmental activity. The replacement of this system requires specialized, Tempest equipment and software which can only be installed as a complete system. The total FY 1991 funding increase required for the purchase and installation of this system is $158,000.

Absorption of the FY 1990 pay raise in FY 1990 will be met through reductions in the Rents, Communications and Utilities and Equipment object classifications.

Also included in this activity for FY 1991 are non-program adjustments for inflationary cost increases, annualization of the FY 1990 pay raise, the cost of the FY 1991 pay raise, one additional compensable work-day and other changes anticipated for FY 1991.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

A summary of the budget levels required for this activity is shown in the following table:

(Dollars in thousands)

	FY 1991 Request	
	FTE Pos.	Amount
Departmental Management and Administration:		
a. Assistant Secretary (Management)	1	$ 64
b. Departmental Finance & Management	1	84
c. Departmental Information Systems	--	--
d. Administration	52	5,027
Total	54	$5,175

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

Buildings Maintenance and Operations - Under the Federal Property and Administrative Services Act of 1949 (as amended), the Treasury Department has direct operational control over the Main Treasury Building and Annex. Within this activity such functions as painting, plastering, mechanical and janitorial services are performed. Funds are also budgeted for payments for space rental and utilities costs.

No program increases are requested for this activity in FY 1991.

Absorption of the FY 1990 pay raise in FY 1990 will be met through reductions in the Rents, Communications and Utilities and Equipment object classification.

Also included in this activity for FY 1991 are non-program adjustments for inflationary cost increases, annualization of the FY 1990 pay raise, the cost of the FY 1991 pay raise, one additional compensable work-day and changes anticipated for FY 1991.

An increase of $320,000 is also requested for telecommunications services. A reduction was assessed against this cost in FY 1990 necessitated by sequester. This reduction required severe curtailment of telecommunications requirements in FY 1990. Because it would be extremely detrimental to the International Affairs program to perpetuate these reduced services in FY 1991, restoration is requested.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES (continued)

A summary of the budget levels requested for this activity is shown in the following table:

(Dollars in thousands)

	FY 1991 Request FTE Pos.	Amount
Buildings Maintenance and Operations:		
a. Facilities Management	22	$ 1,001
b. Space and Utilities	---	2,350
Total	22	$ 3,351

OTHER CHANGES
(Dollars in Thousands)

Total Other Changes..... $1,453

Adjustments necessary to maintain current levels..... $1,453

1. Annualization of January 1990 Pay Act Increases..... $161

This amount represents one-quarter of the FY 1990 base amount for the January 1990 pay raise which was effective for three-quarters of the year in FY 1990. The amount includes the cost of salaries and benefits. The computation was based on the FY 1990 financial plan for salaries and benefits multiplied by 3.6% for one-quarter of the year.

2. Increased Cost for Proposed FY 1991 Pay Raise..... $405

This amount reflects the cost of salaries and benefits for three-quarters of the year for a proposed 3.5% pay raise. This computation was based on the FY 1990 financial plan for salaries and benefits (exclusive of EX/SES Compensation) multiplied by 3.5% for three-quarters of the year.

3. Increased Costs for EX/SES Pay Raise (P.L. 101-194)..... $462

This amount reflects the cost of salaries and benefits for increases pursuant to P.L. 101-194. The amount was derived by calculating the pay raise for SES and EX level authorized positions. Benefits of 20% were also included.

4. Increased Cost for Additional Compensable Day..... $68

This amount reflects the increased cost of salaries and benefits for one additional compensable day in FY 1991.

5. Increased Cost of Health Insurance..... $58

The Office of Personnel Management (OPM) projects a general increase of 15% for agency contributions to employee health benefits. The amount was derived by multiplying the FY 1990 financial plan base by 15%.

6. Increased Cost of All Other Benefits..... $45

The amount was derived by multiplying the FY 1990 financial plan base by an inflationary factor of 4.2%.

7. Increased Cost of Travel and Transportation of Persons..... $22

A 4.2% inflationary factor was multiplied by the FY 1990 travel base.

8. Increased Cost of Transportation of Things..... $4

Includes increased costs for inflation.

9. Increased Cost of Rent, Communications and Utilities..... $99

This represents a net adjustment consisting of a decrease of $19,000 for Federal Telecommunications Systems costs and an increase for inflation.

10. Increased Cost of Printing and Reproduction..... $10

The Government Printing Office (GPO) projects a 7% increase for printing and graphics costs.

11. Increased Cost of Other Services..... $72

This consists of both an increase and a decrease. A decrease of $3,000 reflects the anticipated savings under the new payroll system in FY 1991. An inflation factor has been applied to all other services.

12. Increased Cost of Supplies and Materials..... $19

An inflation factor has been applied to the FY 1990 base for supplies and materials.

13. Increased Costs of Equipment..... $28

An inflation factor been applied to reflect increased equipment costs.

Standard Classification Schedule
(Direct Obligations only, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	384	371	371	0
Full Time Equivalent (FTE) Workyears	342	341	341	0
Object Classification		(Dollars in thousands)		
Personnel compensation:				
Permanent positions	13,877	14,379	15,566	1,187
Positions other than permanent	272	262	273	11
Other personnel compensation	363	428	428	0
Special personal services payments	157	157	157	0
Total personnel compensation	14,669	15,226	16,424	1,198
Personnel benefits	3,153	2,890	3,195	305
Benefits for former personnel	13	13	13	0
Travel and transportation of persons	465	505	613	108
Transportation of things	55	65	69	4
Rents, communications and utilities:				
Rental Payments to GSA	207	278	290	12
Rental payments to others	63	63	65	2
Other rents, communications and utilities	2,245	2,155	2,593	438
Printing and reproduction	147	147	167	20
Other services	2,472	3,109	3,798	689
Supplies and materials	200	166	189	23
Equipment	111	73	101	28
Lands and structures	0	0	0	0
Insurance claims and indemnities	0	0	0	0
Total obligations	23,800	24,690	27,517	2,827
Unobligated Balance Lapsing	263	---	---	---
Obligations of prior year funds	0	---	---	---
Total actual obligations, proposed authorized level and budget estimate	24,063	24,690	27,517	2,827

Departmental Offices, International Affairs

DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimated
Executive Level 1	0	0	0
Executive Level 2	0	0	0
Executive Level 3	1	1	1
Executive Level 4	1	1	1
Executive Level 5	0	0	0
Subtotal	2	2	2
Senior Executive Service Level 6	0	0	0
Senior Executive Service Level 5	0	0	0
Senior Executive Service Level 4	20	20	20
Senior Executive Service Level 3	2	2	2
Senior Executive Service Level 2	2	2	2
Senior Executive Service Level 1	5	5	5
Subtotal	29	29	29
GS-18	0	0	0
GS-17	0	0	0
GS-16	0	0	0
GS/GM-15	64	64	64
GS/GM-14	50	49	49
GS/GM-13	33	29	29
GS-12	29	27	27
GS-11	18	17	17
GS-10	1	1	1
GS-9	18	18	18
GS-8	29	29	29
GS-7	35	31	31
GS-6	26	26	26
GS-5	17	16	16
GS-4	7	7	7
GS-3	0	0	0
GS-2	0	0	0
Subtotal	327	314	314
Ungraded	26	26	26
Total permanent positions	384	371	371
Unfilled positions, end of year	49	—	—
Total permanent employment, end of year	335	371	371

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DETAIL OF AVERAGE GRADES AND SALARIES

	Actual FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES salary	$73,917	$76,593	$89,705
Average GS grade	10.87	10.89	10.89
Average GS salary	$37,355	$36,838	$39,301
Average salary of ungraded positions	$25,100	$25,950	$27,450

WEDNESDAY, FEBRUARY 28, 1990.

UNITED STATES MINT

WITNESSES

DONNA POPE, DIRECTOR OF THE MINT

EUGENE H. ESSNER, DEPUTY DIRECTOR OF THE MINT

DONALD E. VOGT, BUDGET OFFICER, U.S. MINT

DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY, DEPARTMENTAL FINANCE AND MANAGEMENT, DEPARTMENT OF THE TREASURY

Mr. ROYBAL. The committee will now hear the United States Mint and ask Ms. Pope to proceed in any manner that she may desire.

SUMMARY

Ms. POPE. Thank you, Mr. Chairman. With your permission, I would like to briefly summarize my statement and request that the full statement be made a part of the record.

Mr. ROYBAL. Without objection, your full statement will be made part of the record, and ask you to proceed.

[The information follows:]

Department of the Treasury

United States Mint

Introductory Statement of the Honorable Donna Pope

Director of the Mint

For Presentation to the House Subcommittee on Appropriations

Mr. Chairman and members of the subcommittee, I am here to discuss the key elements of the FY 1991 budget request for the United States Mint.

FY 1989/1990 Accomplishments

Before I summarize the budget request and related activities for FY 1991, I would like to highlight several recent accomplishments.

--- During FY 1989, the Mint produced 18 billion coins for domestic circulation. This resulted in seigniorage to the Federal Government of $594 million.

--- The Bicentennial of the Congress Coin Program has raised over $14 million in surcharges for the United States Capitol Preservation Commission. In addition, through this program, the profit from the sale of the strategic silver stockpile, which is the difference between market value and Treasury's book value, has raised an additional $2.5 million for the Defense Logistics Agency (DLA).

--- The Eisenhower Commemorative Coin Program, which recently began in January, has generated to date over $5.6 million in surcharges. These surcharges, deposited to the General Fund, reduce the federal debt. The profit from the sale of this DLA silver has already reached $2.4 million.

--- The American Eagle Gold Bullion Program continues into its fourth year of operation. During FY 1989 and FY 1990 to date, sales exceeded $318 million. This represents approximately 752,000 ounces of gold for both the investment and numismatic versions of the coins. During this period, the American Eagle Gold Program has produced approximately $10.7 million in profits. Since the program began in 1986, we have sold over 5 million ounces of gold which represents approximately 25% of the gold mined in the United States during this period.

--- The American Eagle Silver Bullion Program also continues into its fourth year. During FY 1989 and FY 1990 revenues have exceeded $69 million from the sale of over 9 million ounces of silver for both the investment and numismatic versions of the coin. Operating profits for FY 1989 and FY 1990 to date for the American Eagle Silver Program are approximately $3.4 million. The profit on the sale of this silver has amounted to an additional $36 million in profit to the DLA. Since the program began in 1986, we have sold over 31 million ounces of silver.

--- Profit to date on the sale of 1989 dated proof and uncirculated coin sets has amounted to approximately $9 million.

FY 1991 Budget Request

The Mint's FY 1991 budget request for Salaries and Expenses is $51.429 million and 905 average positions.

This budget will allow the Mint to produce 17 billion coins to satisfy the projected demand of 17.2 billion coins and maintain a coin inventory that will ensure sufficient coinage to meet anticipated coin demand fluctuations.

Our contribution to the Treasury for FY 1991 operations is estimated at $566 million in seigniorage on domestic coins and $24 million from the sale of numismatic and bullion products.

The Mint's FY 1991 budget net increase is $1.4 million, 2.8% over the approved FY 1990 budget. The increases are primarily composed of: $1.8 million for mandatory cost of living increases; $1.2 million for equipment replacements and building improvements; and $700,000 for support services and supplies. These increases are offset by major reductions totaling $2.3 million from the decrease in coin production from 18 billion to 17 billion coins and the decrease in funds requested for asbestos abatement compared to last year.

Equipment Acquisition

The Mint's equipment acquisition plan includes funds for the replacement of worn-out, obsolete equipment. Our request of $5.6 million will support the purchase of items such as high speed coin presses, blanking presses, upset mills, and automated data processing equipment. These acquisitions will improve production efficiency and economy and related management control of Mint operations.

Research and Development Projects

The Research and Development (R&D) program was developed in FY 1986 to enhance productivity of production equipment and processes. The funds for this activity remain available until expended. Since no new projects are planned in FY 1991, the Mint is not requesting additional R&D funds. Work continues on projects that have been developed. The coin press feed system project was developed to improve coin press production. Ten units have been fully installed and we are in the process of installing an additional 50 units. Also, the Mint has ordered an additional robotics system for the counting, bagging and stacking operations. The first system is used for penny operations, while the second system will handle all coin denominations.

Asbestos Removal

The FY 1991 budget includes $215,000 in appropriated funds for the asbestos abatement program at the various Mint facilities. The asbestos abatement effort at the Denver Mint is currently in progress with a targeted completion date of December 1990. Contract awards for asbestos abatement at the West Point and San Francisco Mints are also expected during FY 1990. The total asbestos abatement effort throughout the Mint, which is projected to be completed by the end of FY 1993, is estimated to cost $7 million. Of this amount, $5 million would be funded by appropriations and $2 million would be funded by reimbursable funds.

Personnel

The budget for FY 1991 includes a request for 2,107 full-time equivalent (FTE) positions: 905 for appropriated activities and 1,202 for reimbursable activities. This is a net increase of 17 appropriated positions which is comprised of a restoration of 45 security positions, offset by a reduction of 25 FTEs for reduced coin production and 3 FTEs for productivity savings. There is also a reduction of 55 reimbursable positions from FY 1990 levels.

Recurring Reimbursable Programs

The Mint's recurring reimbursable programs for FY 1991 are: (1) the annual proof coin program; (2) the annual uncirculated coin program; (3) congressionally authorized medals; and (4) the American Eagle Gold and Silver Bullion Programs. All production operations and sales activities related to these programs will be financed from reimbursable funds.

Existing and Newly Legislated Coin Programs

The Congress Coin Program is winding down in FY 1990 and the Eisenhower Coin Program, which is moving along successfully in its second month of activity, will end in FY 1991. Several proposals for other commemorative coin programs are being considered in the legislative process.

Public Enterprise Fund

I am happy to report that the Administration, after detailed review by the Department of the Treasury and the Office of Management and Budget, has recently submitted a key legislative proposal to Congress that will establish a public enterprise fund to finance the Mint's numismatic and bullion coin operations.

This important proposal includes the following key features. The Mint would retain a portion of the profits, as approved by

the Secretary of the Treasury, from the prior year's reimbursable programs to support start-up operations for a new year. At year end, the net profits resulting from all numismatic and bullion programs would be deposited into the General Fund of the Treasury. In addition, the Mint would be required to submit business-like statements to the Congress in support of the public enterprise fund.

Other provisions of the public enterprise legislation would enable the Mint to be more responsive to changes in the public's demand for numismatic and bullion coins and would permit the Mint to operate existing programs and newly legislated commemorative programs in a more efficient and effective business-like fashion.

Summary

In summary, the Mint is requesting an appropriated Salaries and Expenses budget of $51.429 million for FY 1991. This budget will support: (1) coin production to meet expected coin demand; (2) continuation of the asbestos removal program; (3) replacement of worn-out and obsolete equipment; and (4) continuation of improvements to Mint facilities.

I sincerely appreciate the support that this subcommittee has given the United States Mint in the past and look forward to working with you in the future.

This concludes my prepared remarks. I will answer any questions you may have at this time.

Ms. POPE. Thank you, Mr. Chairman. At the table with me today are Eugene Essner, in the middle, Deputy Director of the Mint. At my far left, David Nummy, Deputy Assistant Secretary of the Treasury for Departmental Finance and Management, and Don Vogt, Budget Officer at the Mint.

As has become my custom, before I summarize the 1991 budget request, I would like to very briefly highlight a few recent accomplishments.

During Fiscal Year 1989, the Mint produced 18 billion coins for domestic circulation, which resulted in seigniorage to the Federal Government of $594 million.

In addition, total numismatic and bullion profits to the Federal Government in 1989 were $48 million. The Mint also turned over approximately $28 million to the Defense Logistics Agency from the sale of strategic stockpile silver through the American Eagle and Congress coin programs in 1989.

I am pleased also to announce that since its inception, the American Eagle Gold and Silver Bullion Programs have resulted in the sale of over 5 million ounces of gold and 31 million ounces of silver. That really means that we have purchased one quarter of all of the gold mined in the United States during that period.

The Mint's 1991 budget request is for $51,429,000 and 905 full time equivalent (FTE) positions. This will allow the Mint to produce 17 billion coins and satisfy the projected demand of 17.2 billion coins that are required to support the United States commerce during 1991.

Our contribution to the Treasury for that year's operations is estimated at $566 million seigniorage on domestic coins and $24 million in profits from the sale of various numismatic and investment coins.

We also estimate that another $27 million in silver profits will be turned over to DLA from the sale of the strategic stockpile silver in 1991.

The net budget increase from 1990 is approximately $1.4 million, primarily composed of increases for mandatory cost of living and equipment and building improvements, offset by decreases in funds requested for asbestos abatement and coin production.

The research and development program that was developed in 1985 and 1986 for enhanced productivity is continuing. Although no new projects are planned in 1991, we are continuing work on previously initiated projects that are supported, as you will recall, by no year funding.

The Mint requires 2107 FTEs for 1991: 905 for appropriated activities and 1202 for our reimbursable programs. This is an increase of 17 appropriated positions and a decrease of 55 reimbursable positions from last year.

The Mint's commemorative and other reimbursable programs are continuing. The Congress Coin Program which so far has generated $14 million for the Capitol Preservation Commission, will be completed in 1990 and the Eisenhower Coin Program is currently underway.

Several other legislative proposals for commemorative programs are at varying points in the legislative process. There was a hear-

ing this morning on five of them. These proposals are expected to result in additional commemorative programs in 1991 and beyond.

Finally, I am very happy to report that after a detailed review by the Treasury Department and OMB of each aspect of the legislation, the Administration recently submitted a key legislative proposal of the Mint and the Treasury for a public enterprise fund to finance numismatic and bullion coin operations for the Mint.

That proposal will establish a revolving fund to finance Mint reimbursable operations. It will allow the Mint to modify its operations and react more effectively to the marketplace similar to private business and, I might add, similar to other major marketing mints.

I will be happy to try and answer any of your questions.

BUDGET INCREASE

Mr. ROYBAL. Thank you, Ms. Pope. We do have some questions, but I would like to review primarily your budgetary request. You are requesting an additional $1.4 million more than last year. That additional money I suppose will be used primarily for personnel.

Ms. POPE. Yes.

Mr. ROYBAL. What else will it be spent for?

Ms. POPE. Actually, it includes, as you said, the mandatory cost of living increase and also some additional money for equipment and some for building improvements.

Mr. ROYBAL. How much equipment do you actually need? Now, if it is going to be for both, the $1.4 million——

Ms. POPE. Well, that is just the increase. Actually the equipment budget is $5.6 million. That is $700,000 over last year.

Mr. ROYBAL. Over last year. So you actually will have in place in the neighborhood of $5 million for equipment purposes?

Ms. POPE. That is the equipment budget.

Mr. ROYBAL. Did you not mention building improvements?

Ms. POPE. Building improvements, yes.

Mr. ROYBAL. What will that cost?

Mr. VOGT. About $1 million.

Mr. ROYBAL. Does that have to do anything with the asbestos problem?

Ms. POPE. No, the asbestos money is a separate request.

Mr. ROYBAL. It is separate?

Ms. POPE. Yes. There is, in this budget, $215,000 for asbestos in 1991.

Mr. ROYBAL. That seems to be a problem nationwide for the buildings and even private buildings.

Ms. POPE. Yes, we are in the process of removing asbestos in Denver. We had a little glitch. A disappointed bidder on the asbestos contract took us to court, and got a restraining order. The court then ruled that we had to start from scratch and readvertise, so we lost a year.

Mr. ROYBAL. That mint in Denver was probably built—I was going to say when New Mexico was first founded. [Laughter.]

Ms. POPE. Part of it is an old mint, but it has been added to three, four times now. And as you pointed out, I think, at the last

hearing, there is not much more room for expansion unless we go up and then the historical groups get after us.

Mr. ROYBAL. What would happen if the committee was unable to provide the additional $1.4 million? We are looking at this thing not optimistically because we do not know what our 302(b) allocation is going to be. And if we are cut back, then we will have to do likewise in the appropriations that we recommend.

But if we are faced with that eventuality, what would be the result to your operation?

Ms. POPE. Well, Mr. Chairman, as we have discussed before, we at the Mint do everything possible never to cut back on necessary coin production, so we protect that, which means then we take cuts in other areas.

We have postponed some of the building improvements. The Denver roof needed fixing for a long time. That was postponed a number of years. We are now, this year, fixing it.

So we could postpone some of the things we have planned. We could postpone some of the asbestos, which is not too smart because the employees of course are very concerned. And we could cut coin presses. But we have been mortgaging the future of the Mint for some years now.

Mr. ROYBAL. What I have in mind more than anything else, would personnel suffer? Would you have to reduce personnel?

Ms. POPE. Probably not, because we need the personnel to make the coins.

MINORITY STATISTICS

Mr. ROYBAL. I think I asked you once before about the breakdown of personnel in the Bureau of the Mint, and I think you responded to that. But again for the record, I would like to have you supply that, what the minority status is, including women and so forth, a breakdown to see if there has been any improvement over previous years or has it remained the same. And we will make that determination when we get that report.

Ms. POPE. I will be happy to report that. The last report I looked at indicated that 51 percent of our work force were minorities.

Mr. ROYBAL. Mr. Skeen?

Mr. SKEEN. Thank you, Mr. Chairman. It is good to have you all here today. It is always a very interesting discussion.

ASBESTOS PROGRAM

Let us go back to asbestos. The last time we talked, I think we determined that you had removed about half of the asbestos problem as far as the Mint was concerned, but then I see a reduction—the $215,000 is a reduction, is it not?

Ms. POPE. Well, it is less money than we asked for last year, but we were to spend $1.3 million this year and then we were going to use an additional $215,000 next year.

Mr. SKEEN. So what is your total then?

Ms. POPE. By the time we finish all asbestos removal, it will be about $7 million, $5 million coming from appropriations and $2 million from reimbursables.

Mr. SKEEN. What percentage of removal do you have now? What is your status now?

Ms. POPE. Let me guess—about a quarter? Anybody want to argue?

Mr. SKEEN. I think we talked last time that you had completed about half of the work.

Mr. ESSNER. Denver is the primary facility where we have the problem, as far as the appropriated funds are concerned, and that is under contract now and is due to be completed by the end of the year. We have not done a complete engineering study at Philadelphia. That is what we will contract for this year.

Mr. SKEEN. So, you do not know?

Mr. ESSNER. Well, we have some idea and we have estimates. We have estimates that it would cost about $2.5 million in Philadelphia. But until we get the complete engineering study, we will not know for sure.

Mr. SKEEN. I was a little fuzzy about where you are on this thing. I thought we had about half the job done.

Ms. POPE. No, I wish we did.

Mr. SKEEN. I wish we did, too.

Ms. POPE. Had we not had the glitch in Denver, we probably would be at least half done if not more, in Denver by this time.

Mr. SKEEN. What is the status of your lawsuit?

Ms. POPE. Well, it is now resolved. We went out and resolicited.

Mr. SKEEN. But you had to go back through the whole process again.

Ms. POPE. Correct.

Mr. ESSNER. We do have a new contractor on now who is working on it.

Mr. SKEEN. He is not going to go to court too?

Mr. ESSNER. No.

Mr. SKEEN. Good.

NEW DOLLAR COIN

We have been hearing a lot of talk about a new dollar coin. What is the feeling and the situation on that topic?

Ms. POPE. Well, as I understand it, there is going to be a hearing in the Senate at the end of April on the matter. So the legislation is still under consideration.

Mr. SKEEN. So there is nothing being done as long as we are chewing on it.

Ms. POPE. That is correct.

Mr. SKEEN. Okay.

Ms. POPE. We have been asked by various sources what the Treasury's position would be on a dollar coin. The Treasury Department has really not taken a position in support or in opposition of the legislation. Simply to point out some of the things we have watched, experiences with other countries have been that a dollar coin or a high denomination coin will not really work and it will not fly unless the corresponding note is eliminated from production.

Although the Treasury Department is not endorsing the idea of withdrawing the dollar bill, the experience in all the other coun-

tries shows that that is really the only way a high denomination coin works. In other words, you force the public to use it.

Mr. SKEEN. Well, popular media is focusing on this. You can see recurring articles beginning to crop up again and I do not know what impetus causes that.

Ms. POPE. There is a lobbying group, the Coin Coalition.

Mr. SKEEN. The Coin Coalition?

Ms. POPE. Yes.

Mr. SKEEN. That is an organization, too?

Ms. POPE. Yes.

Mr. SKEEN. Non-environmental?

Ms. POPE. I think so. At least they have not brought that issue into it yet.

Mr. SKEEN. Have you heard about the implanting of dimes in mice in the laboratory and they cause tumors? The conclusion was that money causes cancer. [Laughter.]

Ms. POPE. I hope none of the Mint employees hear that. [Laughter.]

Mr. SKEEN. We are not going to advertise that. That was just a joke. These college kids did this experiment, and this is as ridiculous as some of the conclusions we come up with nowadays on certain fad issues.

CONGRESSIONAL COIN PROGRAM

I was very pleased with the program that you had on the Congressional bicentennial. That was an excellent thing and I think what it did was it enhanced the Mint and its operation, particularly in the consciousness of the Members of Congress.

Ms. POPE. I hope so.

Mr. SKEEN. It certainly was well done. We enjoyed going over there and punching the things in and you got us to buy a lot of them and so forth. What kind of a profit did we make off this? You mentioned it in your text, something like $14 million. Was that profit?

Ms. POPE. Close to $15 million from the surcharges to the Capitol Preservation Commission. Yes.

Mr. SKEEN. That is not too bad a return.

Ms. POPE. That is very good.

Mr. SKEEN. What happens if you have those coins that are minted and are not subscribed? Do you just go back and melt them down?

Ms. POPE. When the program ends.

Mr. SKEEN. When the program ends?

Ms. POPE. Yes. But of course we do not mint all that is authorized by the legislation.

Mr. SKEEN. Oh, I am sure you do not.

Ms. POPE. We just really mint to demand as the orders come in. Hopefully we have projected close enough so that there will not be too many coins melted down. But yes, that is what we do.

Mr. SKEEN. You do a lot of planning in that area, too, then.

Ms. POPE. Well, we try but then you can never tell what the marketplace is going to do out there.

Mr. SKEEN. But there evidently is a good market in these commemorative coins.

Ms. POPE. Well, yes and no. The revenues from commemorative coin programs have been falling off lately. Some of the speculation is that perhaps there are too many commemorative coins coming into the marketplace and that there are just so many dollars in collectors' pockets because between 75 and 80 percent of our coins are sold to collectors.

To get beyond them costs a great deal of money in advertising and promotion. It depends on the subject. The Statue of Liberty coin program was a tremendous success, but we had Mr. Iacocca and the Statue of Liberty Foundation also hyping up everything. Whereas, the Congress Coin, there really was not a group that was having hoopla across the nation and on television.

Mr. SKEEN. With our standing in the public over there, it is a miracle that we got the $14 million. [Laughter.]

[Laughter.]

Ms. POPE. I did not say that, Mr. Skeen. [Laughter.]

Mr. SKEEN. I did. Thank you very much. Thank you, Mr. Chairman.

Mr. ROYBAL. Thank you, Mr. Skeen. Mr. Akaka?

Mr. AKAKA. Thank you very much, Mr. Chairman. Good to see you, Director Pope.

Ms. POPE. Nice to see you.

LONG RANGE FACILITY PLAN

Mr. AKAKA. For the past two Fiscal Years, you have been developing a comprehensive plan to modernize the facilities of the Mint. My question to you is what is the status of that and when are you going to implement it? Also, does this take into consideration expanding the plant to increase your coin production?

Ms. POPE. Thank you for the question, Mr. Akaka. I am pleased to report that we are working on the Material Handling System at Denver.

We have the wastewater treatment in at Denver which has not been there before and we will have one in Philadelphia next year.

We have started buying high speed coin presses. About thirty of our coin presses are between 25 and 30 years. So, our long range plan really calls for us buying at least six high speed coin presses a year forever, in effect, because by the time we replace the first ones, the other ones will be 25 years old.

We have begun that, and here we are kind of at the mercy of the Appropriations Committee to know whether we can go forward with our plan. But we have already bought the first of the high speed presses for Denver. This year, we will be buying some for Philadelphia.

We are also buying some new blanking presses. We have one robot operating in Philadelphia and we should have another one within the next year. That, of course, not only is more efficient but it also saves our employees a lot of backaches and back claims. So we are moving right along with the five-year plan.

As far as expanding buildings, there really is no plan to expand buildings but rather to improve the equipment that our employees

are using for more and more efficiency. The new high speed coin presses are a wonder to behold. You gentlemen, I do not think, have been to a mint. You really should see the high speed coin presses operating. To see something move at 700 strokes a minute is incredible.

Mr. AKAKA. Does anything burn up at that speed?

Ms. POPE. It should, but it does not. I mean, my mind says it should but it does not.

Mr. AKAKA. That's great.

Mr. SKEEN. I think that ought to be a project, to come down and watch it.

Ms. POPE. Good. We would enjoy having you.

PUBLIC ENTERPRISE FUND

Mr. AKAKA. Another question I have, my final question for you, is the Administration considering legislation to establish a public enterprise fund to finance some of the Mint's operations. How will this proposal change your present way of doing business?

Ms. POPE. It will give us at least a measure of flexibility. You know, we are out in the marketplace—this is really on the numismatic side of our operation, it does not have anything to do with the appropriated side, but on the numismatic side we are in direct competition out there around the world selling commemorative coins with the British Royal Mint, the Canadian Royal Mint, the Australian Mint, and to some degree the Mexican Mint.

They all have a greater flexibility. They are quasi-government operations, crown corporations. They are not under all the restrictions that we are under. I am convinced that the government rules and regulations were never written with a commercial enterprise in mind, and one that comes into the marketplace with a product. When sales of a product end, we start another product. When the Congress Coin Program stops, the Eisenhower Program comes on and then will come whatever Congressman Lehman passes out of his committee next.

We have to have the flexibility to react quickly. With the procurement laws that we have, that is almost impossible. Now, some of the coin legislation recognizes that and includes exemptions for procurement in it. But our ongoing program, the American Eagle Gold and Silver Bullion Program, has no procurement exemption and, of course, that is the most market sensitive of our programs depending on the price of precious metals.

We also do not have the ability to carry marketing funds over from one year to the next. In other words, when we sold a lot of Eagles, so much so that we could not keep up with the demand, there was not much need to advertize. We could not carry the earmarked marketing money from one year over to the next year. It all was turned over to the General Fund. The next year, when the price of gold fell, people were not interested in buying gold. We also had no money to advertize because we could not carry the funds over, which of course is something the Canadian Mint, the British Royal Mint and all the others can do.

So people ask why do we see their advertisements and not yours? Well, that is the reason. This proposal would give us that flexibility

as well. It also would really give us a cleaner accounting system. Rather than having one checkbook that we borrow from and then reimburse, we would have two separate checkbooks.

It would make us report our activities in a more businesslike manner, which of course is what the numismatic side of the Mint has become since 1982.

Mr. AKAKA. So what you are telling me is it will be contained in this legislation and will permit you to do what you need to do to improve it.

Ms. POPE. Yes.

Mr. AKAKA. Under this proposal, will some of the revenues from commemorative and other non-circulation coins be set aside for equipment and other long term expenses?

Ms. POPE. Yes. We currently take some of the money from the profit of numismatic coins and buy equipment that is related to the numismatic side of the operation. That of course does not help the appropriated side or the circulating coin side at all.

Mr. AKAKA. Do you know where that piece of legislation is at this present time in the process?

Ms. POPE. It is on its way to the Speaker of the House as I understand.

Mr. AKAKA. All right. Thank you.

Ms. POPE. I hesitated because it was on its way, then it was held up and then it started on its way again.

Mr. AKAKA. Thank you very much.

Mr. ROYBAL. We would like to thank you for your testimony. There are other questions that we would like to submit for the record and have you answer them as soon as possible.

Ms. POPE. Be happy to. Thank you, Mr. Chairman.

[Questions and answers follow:]

QUESTIONS SUBMITTED FOR THE RECORD

COIN INVENTORY

Mr. Roybal. Why are you proposing to increase the inventory of coins in 1990 significantly above 1989 and then reduce it in 1991?

- Why do you believe the current inventory is too low?

- How do you determine inventory levels?

Mrs. Pope. Coin inventories at the end of FY 1988 were very low -- a two to three day supply in some cases. During FY 1989, we planned and executed an increase in inventories to achieve more comfortable operating levels. Projected inventories for the end of FY 1990 (7.8 billion) and FY 1991 (7.6 billion) are approximately 1.5 billion higher than FY 1989.

The current inventory level is not too low and will basically be maintained at slightly lower levels in FY 1991.

The U.S. Mint operates its production at a constant monthly rate during the year. However, coin demand varies dramatically during the year. Very low demand is experienced by the Federal Reserve Banks from commercial banks during the January to April time period, and very high demand during the summer months and the Thanksgiving and Christmas holiday shopping periods. Because of limited vault space, the Federal Reserve Banks do not want to hold more than 3.9 billion coins. Therefore, the Mint holds the balance of the inventory to meet the needs of high demand and to cushion the more than normal coin produced during low demand periods.

EQUIPMENT PURCHASES

Mr. Roybal. What type of equipment did you purchase with the additional $1.9 million appropriated for fiscal year 1990?

Mrs. Pope. The additional equipment funds in FY 1990 will allow us to purchase five (5) high speed coining presses for Philadelphia. In FY 1989, we were able to purchase only one (1).

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MINT FACILITIES

Mr. Roybal. Will you briefly describe the condition of Mint facilities and equipment of each of your plants?

Mrs. Pope. Philadelphia and Denver facilities produce all of the circulation coinage. San Francisco and West Point are producing facilities for numismatic and bullion coins, however, some numismatic production is performed also in Philadelphia and Denver. The Philadelphia facility is the youngest, 1969, and the Old Mint in San Francisco the oldest, 1874.

The facilities require yearly maintenance and refurbishments. The Mint five-year plan reflects a need of approximately $1.6 million yearly in appropriated funds.

The great majority of the equipment utilized for production is not state-of-the-art and reflects 1960's technology. The Mint five-year plan reflects the need of replacing the current equipment with modern efficient equipment at a yearly expenditure rate of approximately $5.4 million in appropriated funds.

LONG RANGE PLANS

Mr. Roybal. Have you developed long-range plans for modernization of Mint facilities and equipment? If so, will you briefly describe that plan and furnish the Committee a copy.

Mrs. Pope. A five year plan is submitted to the Committee reflecting the anticipated needs through 1995. This plan is a revision of that submitted the prior year to the Committee. The plan will be updated periodically and continues to reflect the desire of the Mint to purchase modern high speed equipment that will allow our workers to become more productive. Attached is a copy of our current plan.

COST OF PRODUCTION

Mr. Roybal. What does it cost to produce various denominations of coins?

Mrs. Pope. The costs to produce the various denominations of coins in FY 1989 were as follows:

Cost and Seigniorage Per Coin
Fiscal Year 1989 Actual Operations
(In rounded tenths of a cent)

Denomination	Total Metal, Fabrication & Manufacturing Cost	Seigniorage
1 cent	.7 cents	.3 cents
5 cent	2.6 cents	2.4 cents
10 cent	1.4 cents	8.6 cents
25 cent	3.2 cents	21.8 cents
50 cent	5.8 cents	44.2 cents

SPECIAL COINS

Mr. Roybal. Could you give the Committee a report on the special silver and gold coins you have produced.

How many coins have you produced and how much money have you been able to turn over to the Treasury?

Do you plan to continue these programs?

Mrs. Pope. Since 1982, the Mint has sold approximately 2.5 million gold coins and 25.3 million silver coins in special commemorative programs. These programs also have included sales of 8.8 million clad coins. These programs have generated operating profits of $116.8 million to date, which includes an estimate of $3.3 million for the Congress Coin Program. These profits are deposited to the General Fund of the Treasury. In addition, the programs have earned $252.9 million in surcharges of which $59.2 million from the Constitution and Eisenhower Programs will go directly to the General Fund. The remaining surcharges are paid to the Olympic Committees, the Statue of Liberty-Ellis Island Foundation and the U.S. Capitol Preservation Commission.

The Congress and the Eisenhower Coin Programs, currently active, will end in FY 1990 and FY 1991, respectively. Several proposals for new commemorative coin programs are being considered in the legislative process.

Below is the detail of this information by program.

U.S. Mint
Commemorative Programs
1982 to Present

Program:	Coins Sold Gold	Silver	Clad	Net Profit	Surcharges
1. 1982 George Washington Half Dollar	N/A	7,100,000	N/A	$41,500,000	$0
2. 1983/1984 Olympic	573,000	4,500,000	N/A	$10,300,000	$73,500,000
3. 1986 Statue of Liberty	500,000	7,100,000	7,900,000	$27,100,000	$83,100,000
4. 1987 U.S. Constitution	866,000	3,200,000	N/A	$34,600,000	$52,700,000
5. 1988 Olympic	344,000	1,600,000	N/A	$0 1/	$22,900,000
6. 1989 U.S. Congressional	208,000	860,000	889,000	$3,300,000 2/	$14,200,000
7. 1990 Eisenhower Center'l	N/A	932,000	N/A	N/A	$6,500,000
Total	2,491,000	25,292,000	8,789,000	$116,800,000	$252,900,000

1/ Preliminary Profit - Profit to be determined upon final reconciliation
2/ Estimate as of September 1989

SEIGNIORAGE

Mr. Roybal. For the record, will you explain (once again) the term "seigniorage" and tell the Committee how much "revenue" that provides to the Treasury?

Mrs. Pope. Seigniorage for circulating coinage represents the difference between the face value of all coins produced and their cost of production. That cost of production includes metals contained in the circulating coinage, as well as expenses incurred for the manufacturing, wastage from production and transportation of those coins.

In the case of numismatic coinage, the customer is charged with the cost of manufacturing, wastage from production and transportation of numismatic coinage. Thus, for numismatic coins, seigniorage is the difference between the face value of the numismatic coins and the cost of the metals contained in those coins.

Since seigniorage is a result of the exercise of the government's monetary powers, as opposed to receipts coming from the public, it is used to reduce the amount of money which must be borrowed to finance the budget deficit.

Actual seigniorage deposited to the General Fund of the Treasury for each of the last three fiscal years was $458 million in FY 1987, $468 million in FY 1988 and $594 million in FY 1989. Seigniorage is estimated to be $575 million in FY 1990 and $566 million in FY 1991.

MINT REVOLVING FUND

Mr. Roybal. I notice that legislation will be proposed to create a Mint Revolving Fund in the amount of about $544 million. What will that revolving fund be used for? Why is it being established?

Mrs. Pope. In response to OMB the Mint is proposing legislation to create a Public Enterprise Fund (a revolving fund) to finance on-going numismatic and bullion coin operations as well as commemorative programs beginning in FY 1991. This fund will allow the Mint to operate all of its reimbursable operations from one account. This legislation is currently being reviewed by OMB.

The Mint would retain profits from FY 1990 reimbursable programs to support start-up operations on October 1, 1991. During FY 1991 and thereafter, sales proceeds would be deposited into the revolving fund and operating and capital expenditures would be charged against the fund. At year end, the net profits resulting from all numismatic and bullion programs would be deposited into the General Fund of the Treasury, with the exception of the necessary funding to be retained as approved by the Secretary of the Treasury, to finance start-up operations for the subsequent fiscal year. The Mint would be required to submit business-type statements to the Congress in support of the operations of the revolving fund.

The $544 million, as shown in the President's FY 1991 Budget, is the Mint's estimate of total obligations that the Public Enterprise Fund will incur in FY 1991. These obligations, which include the cost of materials such as gold and silver, will be financed by revenues from the sale of numismatic and bullion products.

The Public Enterprise legislation would enable the Mint to be more responsive to changes in the public demand for numismatic and bullion coins and would permit the Mint to operate existing programs and newly legislated programs in a more efficient and effective business-like fashion.

MINORITY EMPLOYMENT

Mr. Roybal. What has been the status of minority employment at the Mint?

Mrs. Pope. Minority employees at the Mint in 1989 represent 51% of the total employment. This is the same percentage as 1988. The following schedule provides a breakdown of the status of employment as of December 31, 1989.

U.S. Mint
Status of Employment
As of December 31, 1989

	Males		Females		
	Min	Non-Min	Min	Non-Min	Total
GS-18/SES	0	3	0	1	4
GM-13/15	5	60	3	12	80
GS/Wage Grade Supervisors	85	104	17	12	218
GS/Wage Grade Non-supervisors	630	640	308	181	1,759
Total Employment	720	807	328	206	2,061

ASBESTOS REMOVAL PROGRAM

Mr. Roybal. What is the status of your asbestos removal program?

Mrs. Pope. The asbestos abatement of the Denver Mint is currently in progress with a target completion date of December 1990. At all facilities emergency abatement work is done on an as needed basis.

The Statement of Work for the preparation of an engineered abatement plan at the Philadelphia Mint has been released to Procurement for solicitation in FY 1990. The actual abatement project will be solicited in FY 1991.

The Statement of Work for the abatement of the West Point Mint has been released to Procurement and award of a contract is expected in FY 1990.

The Statement of Work for the abatement of the San Francisco Mint is being prepared and is expected to be released and a contract awarded in FY 1990.

All of the Mint facilities have been surveyed for the presence and condition of asbestos. As a result of the surveys and various facility construction projects, several selected abatements have been performed at Denver, Fort Knox, San Francisco, and West Point.

The abatement project at the Denver Mint was delayed for over a year while a permanent injunction was in effect and the Mint resolicited new proposals. The new contract for the abatement at the Denver Mint was awarded on June 1, 1989 to HSA Contractors, Inc. of Milwaukee, WI in the amount of $1,375,000.

The total asbestos abatement effort throughout the Mint, which is projected to be completed by the end of FY 1993, is estimated to cost $7.0 million, of this amount, $5.0 million would be funded by appropriations and $2.0 million would be included in reimbursable funds.

UNITED STATES MINT LONG-RANGE PLANNING

This plan is meant to be a fluid, flexible document and subject to change as the need arises. The objective of the plan(s) is to identify need. It is recognized that funding will not be available to do all of the items listed. Each year prior to budget submission, a ranking will be done relative to funding limits, and items will be reprogrammed as appropriate. The five-year plans for Object Class 32 and Object Class 31 are designed to reflect needs and hopefully ultimate fulfillment of those needs. The timing of the completion will be dictated by funding availability.

The items listed under Land and Structures - Building Improvements (Object Class 32) and Equipment (Object Class 31) are projects or pieces of equipment identified for replacement, upgrade, or expanded capability. In addition, three projects have been identified as potential submissions for E&I (Expansion and Improvement) funding.

The U.S. Mint Long-Range Plan is submitted in the following sections:

I. Condition of Mint Facilities

II. Land and Structures - Building Improvements (Object Class 32) Five-Year Plan

III. Equipment Needs - Major Items

IV. Equipment (Object Class 31) Five-Year Plan

V. Expansion and Improvement

Office of Operations
October 2, 1989
Revision Date

I. CONDITION OF MINT FACILITIES

A. Denver Mint

The initial construction of the Denver Mint was completed in 1904. Several additions have been made, the most recent was completed in 1986.

The recent addition was part of E&I funding that was approved in the late 1970's. This funding provided for expanding the interior floor space, purchasing ten new presses, and a materials handling system. The last item has not been completed. We are currently proceeding with an award at a lower than expected level due to limited availability of funds. Additional funds will be needed to complete the Denver materials handling system.

We are embarking on an asbestos removal project which will take approximately 18 months to complete. Because of the age of the facility, constant preventive maintenance is required. Next year, we plan to commence a substantial renovation of the roof. Additional projects are planned that represent general upkeep of the facility and grounds, and improvements in the heating and ventilation systems.

B. Fort Knox Depository

The U.S. Bullion Depository, Fort Knox, Kentucky, was completed in December 1936. Since that time, the structure and grounds have shown extensive aging and deterioration, as a result of limited preventive maintenance. An architectural and engineering study completed in February 1984 detailed necessary repairs, replacements, painting and fix-ups to the facility. At this time, approximately 85% of the A&E work has been accomplished. The projects defined in our five-year plan should complete the A&E recommendations.

C. Philadelphia Mint

The Philadelphia Mint is a relatively new building that was completed in 1969. It is structurally sound but in need of replacements and repairs for many of its components. A listing of some of the major items to be considered over the next five years for replacement or refurbishing are: electrical transformers; air conditioning units; elevators and escalator overhaul; wet scrubbers; caulking; completion of building truck door replacement; and new perimeter lighting.

D. **San Francisco Mint**

The San Francisco Mint consists of two buildings; the Old Mint, primarily a museum and office center, which was completed in 1874 and the new Mint, a production facility, which was completed in 1937. With the completion of the Old Mint's roof replacement which is scheduled to be accomplished this year, the general condition of both buildings will be very good. However, both buildings do need their rest rooms modernized and their heating, ventilation and air conditioning systems should be replaced with modern energy efficient systems.

Additional major building requirements identified at San Francisco to be accomplished during the FY 1991 to FY 1995 time frame are: renovation of the Old Mint basement and installation of an alternate die manufacturing facility; construction of a west side entrance to the new Mint (this will facilitate the delivery of supplies and the shipment of product); and construction of additional storage space at the new Mint.

E. **West Point Mint**

In 1937, the U.S. Mint at West Point, opened as a Silver Bullion Depository, the counterpart to Fort Knox Bullion Depository where gold is stored. In 1973, legislation was passed allowing the Mint to use any facility to Mint coins. On March 31, 1988, President Reagan signed legislation changing the West Point Bullion Depository to the U.S. Mint at West Point.

Because West Point had been minting under special legislation, limited funds were spent to upgrade the building and the equipment within the facility. Now that it is, by law, a full Mint, we have a number of projects in our five-year plan to upgrade it to the status of a modern Mint.

III. EQUIPMENT NEEDS - MAJOR ITEMS

Circulating Coining Press Replacement

The replacement program was developed based on the assumption that: (1) Bliss K - 225's will be converted to the dial feed systems by the end of 1992 for manufacturing the four-out coin denominations; (2) replacement presses will be High Speed producing at least at the rate of 700 coins per minute operating with one set of dies for improved coinage quality and increased die life; (3) orders will be placed in the same year as budgeted; (4) delivery of presses will not be longer than one year after the order is placed; and, (5) full operational status of the new presses will be achieved one year after installation.

As a part of Denver E&I program, we purchased ten high speed presses in 1986 to increase the production capacity of the Denver Mint. In FY 1988, we began the purchase of high speed presses as the commencement of a press replacement program. We plan to have these new presses delivered and installed for production in Philadelphia during FY-90, and will place an order for an additional five High Speed presses to be delivered during FY-91 assuming our FY-90 budget is approved. We do not plan to retire any of the old presses until FY-91 because we'll need them for capacity addition. Our plan beginning in FY-91 is to start retiring the presses which are 20 - 29 years old. Table I shows the projected number of old and new presses available during each fiscal year starting with 1990 through 1996, and the impact on production capacity.

In FY-91 and later, we will begin procuring smaller tonnage presses with single dies. We anticipate that technology will be developed for presses to operate at 800 strokes per minute with higher coin output than the dial feeds and with higher efficiency in terms of die change and coin quality. Should the mix change so that the demand is for higher denomination coins, we will continue replacement programs with larger tonnage High Speed presses.

Accordingly, projected budgetary estimates for the years 1991 through 1995 are based on the expenditures for smaller size presses at the rate of six per each year. Price of smaller presses was estimated at about 85% of the price of larger ones. The decision as to which facility should have the replacement first will be governed by the age of the presses at that facility, by the coinage demand, and by the amount of other work being done at that facility.

UNITED STATES MINT
LAND AND STRUCTURES
BUILDING IMPROVEMENTS

Revision Date: 10/02/89

CLASS 32 - 5YR PLAN

Summary

PROJECT	Est $	1991		1992		1993		1994		1995	
		Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.
Philadelphia		700,000	650,000	700,000	750,000	860,000	760,000	850,000	500,000	975,000	725,000
Denver		639,000	142,000	800,000	79,000	555,000	80,000	770,000	67,000	570,000	47,000
San Francisco		0	660,000	0	1,020,000	0	1,075,000	0	1,375,000	0	975,000
West Point		0	630,000	0	700,000	0	808,000	0	750,000	0	600,000
Fort Knox		15,000	0	205,000	0	169,000	0	105,000	0	30,000	0
Summary Total		1,354,000	2,082,000	1,705,000	2,549,000	1,584,000	2,715,000	1,725,000	2,692,000	1,575,000	2,347,000

UNITED STATES MINT
LAND AND STRUCTURES
BUILDING IMPROVEMENTS

Revision Date: 10/02/89

CLASS 32 - 5YR PLAN

Philadelphia

Est $	1991		1992		1993		1994		1995	
PROJECT	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.
Ductwork Cleaning	100,000	100,000	100,000	100,000						
Complete Recaulking of Bldg.			125,000	125,000						
Improve Coin Prod. Area Air Envir							150,000		150,000	
Melt Area Elevator									100,000	100,000
Dock Levelers (5)					25,000	25,000	25,000	25,000		
Wastewater Treatment	100,000	100,000								
Elev. & Escal. Overhaul					100,000	100,000			100,000	100,000
Update Lighting in Prod. Areas							200,000		100,000	200,000
Public Area Refinishing										
HVAC Improvements	50,000	50,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
New Perimeter Lighting										
Blank Prep Area Utilities	300,000		100,000							
Plant Floor Resurfacing					50,000	50,000				
Security Gate Visitor Entr.			100,000	100,000						
Elect Power Add. 750 KVA							50,000	50,000		
Truck Vault Doors	100,000	100,000								
Concrete Pads Support Room			30,000	30,000						
Melt Area Light/Clean/Exhaust										
Coin Office Expansion									200,000	
Repair Caging in Vaults					60,000	60,000				
Security Upgrade Visitor's Entrance		250,000								
Public Area Refinishing				100,000						
Gold Assay Capability				50,000						
Misc Refurbishments	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
A/E Mezz Storage Study			20,000	20,000						
Mezz. Floor Storage					300,000	300,000	300,000	300,000		
Circ. Coin Prod. Offices					100,000					
New Sidewalks			20,000	20,000						
Rebuild Air Compress			30,000	30,000						
Rebuild Chiller			50,000	50,000						
Replpe Process Water									50,000	50,000
Replace Sewers									25,000	25,000
HVAC Production Areas					100,000	100,000				
Air System Upgrade									125,000	125,000
Total Philadelphia	700,000	650,000	700,000	750,000	860,000	760,000	850,000	500,000	975,000	725,000

UNITED STATES MINT
LAND AND STRUCTURES
BUILDING IMPROVEMENTS

Revision Date: 10/02/89

CLASS 32 - 5YR PLAN

Denver

PROJECT	Est $ 1991 Approp.	1991 Reimb.	1992 Approp.	1992 Reimb.	1993 Approp.	1993 Reimb.	1994 Approp.	1994 Reimb.	1995 Approp.	1995 Reimb.
Roof Repairs										
Upgrade Wast. Treat. & 1904 Sewer	146,000	14,000								
Chiller CH-7 Anneal 240T										
Sidewalk & Paving Repairs	55,000	5,000								
Misc HVAC Improvements	55,000	5,000	100,000	10,000	100,000	10,000	100,000	10,000	100,000	10,000
Exterior Recaulk & Paint	36,000	4,000	100,000	10,000					75,000	8,000
Tour Route West Elevator Study		80,000								
Install Annealing Chimneys	18,000	2,000								
Freight Elev. 8B Door Refurbish.	45,000	5,000								
Chiller CH-6 200T			250,000	30,000						
Replace York AC 10T			85,000	9,000						
Replace Eng/Off HVAC 7T			38,000	4,000						
Install 3rd fl HVAC 15T					30,000					
Install 2nd fl HVAC 85T					120,000					
Install 2nd fl HVAC 10T					60,000					
Replace 1st fl HVAC			40,000							
400 HP Comp/Air System	96,000	6,000							100,000	10,000
Floor Repairs			48,000							
8v Transformer 1000KVA	68,000	7,000			50,000	5,000				
Emerg. 100 KW Generator	77,000	8,000	59,000	6,000						
Correct .6 Power Factor			30,000	5,000						
Improve Coin Prod. Area Air Envir							100,000		100,000	
New Admin. Offices					100,000	10,000				
Replace Gutters					45,000	50,000				
Estab Air Hand Mach/Upset							220,000	22,000		
Estab Air Hand Proc/Acct									80,000	8,000
Replace Air Handlers AH-6,7,8									45,000	6,000
Elevator Repairs							300,000	30,000		
Misc	45,000	6,000	50,000	5,000	50,000	5,000	50,000	5,000	50,000	5,000
Total Denver	639,000	142,000	800,000	79,000	555,000	80,000	770,000	67,000	570,000	47,000

UNITED STATES MINT
LAND AND STRUCTURES
BUILDING IMPROVEMENTS

Revision Date: 10/02/89

CLASS 32 - 5YR PLAN

San Francisco

PROJECT	Est $	1991 Approp.	1991 Reimb.	1992 Approp.	1992 Reimb.	1993 Approp.	1993 Reimb.	1994 Approp.	1994 Reimb.	1995 Approp.	1995 Reimb.
Seismic Update Old Mint					100,000		200,000		200,000		
Emergency Generator							100,000				
Floor Renovations			50,000		50,000		50,000				
Office Upgrade					75,000		75,000		75,000		75,000
Rest Room Improvements			75,000								
Freight Entr. West Park.							150,000		300,000		300,000
Grout Parking Lot			100,000								
A/E HVAC Study SFAO					40,000						
A/E-SOW, Seis Analysis SFAO					80,000						
Seismic Update SFAO											300,000
Employee Entr. & Exit.			100,000								
Replace Court Windows							100,000				
A/E-SOW HVAC Old Mint			60,000								
HVAC Update Old Mint					200,000		200,000		200,000		
A/E Study Cover Courtyard			50,000								
Elevator Repairs					250,000				250,000		
HVAC Improvements			100,000		100,000		200,000		200,000		
Upgrade Light/Coil Prod. Areas									150,000		300,000
Wastewater Treatment System			125,000		125,000						
Total San Francisco			660,000		0 1,020,000		0 1,075,000		0 1,375,000	0	975,000

UNITED STATES MINT
LAND AND STRUCTURES
BUILDING IMPROVEMENTS

Revision Date: 10/02/89

CLASS 32 - 5YR PLAN

West Point

PROJECT	Est $	1991 Approp.	1991 Reimb.	1992 Approp.	1992 Reimb.	1993 Approp.	1993 Reimb.	1994 Approp.	1994 Reimb.	1995 Approp.	1995 Reimb.
Front Entrance Cover							100,000				
Renovate Existing Office Area					50,000						
HVAC Improvements					100,000		100,000				
Upgrade Washrooms					70,000						
New Lunch Area					30,000						
Change Scanning & Dock Area							50,000				
Extend Office Add. for Storage									200,000		
Emergency Generator									100,000		
A/E-SOW for Elect Power Sup			25,000								
Electrical Power Supply			100,000		100,000						
Complete Roof Repair									200,000		
A/E-SOW for Manuf Exp			40,000								
Phone and Intercom			55,000								
Manufacturing Extension			360,000		200,000						
Wastewater Treatment											100,000
Improve Park/Road & Lighting									100,000		200,000
Exterior Painting											50,000
Misc Refurbishment			50,000		50,000		50,000		50,000		50,000
Relocate Bldg in Parking Lot											200,000
New Air Compress Air Dys							150,000				
Upgrade Vault Manuf. Area					100,000		300,000				
Improve Utility Dist							50,000		100,000		
Total West Point		0	630,000	0	700,000	0	800,000	0	750,000	0	600,000

UNITED STATES MINT
LAND AND STRUCTURES
BUILDING IMPROVEMENTS

Revision Date: 10/02/89

CLASS 32 - 5YR PLAN

Fort Knox

PROJECT	Est $	1991 Approp.	1991 Reimb.	1992 Approp.	1992 Reimb.	1993 Approp.	1993 Reimb.	1994 Approp.	1994 Reimb.	1995 Approp.	1995 Reimb.
Utility Building		7,500									
Ductwork per Maint. Builing		1,500									
Resurface & Grade Road Entr						95,000					
Carpeting Offices		1,000									
Misc. Bldg. Maint.		5,000									
Sandblast & Seal Bldg.				75,000							
Replace Drainage System				40,000							
HVAC Maint. & Class Re						8,000					
Roof Rep Two Observ. Bldg						36,000					
Renov. Load Dock for Trail.								75,000			
Misc. Refurbishment				30,000		30,000		30,000		30,000	
Admittance Bldg.				60,000							
Total Fort Knox		15,000	0	205,000	0	169,000	0	105,000	0	30,000	0

TABLE I
COINING PRESSES AND MINT-WIDE CAPACITY

End of Fiscal Year	Number of Presses: Blisses Without Dial	Blisses With Dial	New High Speed	Annual Production Capacity in Billions: Total
1990	134	10	12	19.9
1991	80	60	15	20.9
1992	14	110	20	22.9
1993	8	110	26	23.2
1994	2	110	32	23.6
1995		106	38	23.8
1996		100	44	23.9

Note: The basis for calculating the maximum capacity was as follows:

1. Bliss press with fingers, Output = 129.6 million per year.
2. Bliss with a dial feed, Output = 162 million per year.
3. 150 Ton High Speed single die press = 165 million per year.
4. 100 Ton High Speed single die press = 185 million per year.

Numismatic Press Replacement

The overall condition of the multi-strike presses at the Mint can be described as aging rapidly. Some presses date back to the turn of the century, however, the majority were purchased in the '60s and '70s.

Our plan is to replace the old presses not only because of their age and associated repair costs, lack of spare parts, etc., but also to improve productivity by gradually changing our manual presses to semi-automated operations.

Accordingly, the modernization will occur in two phases:

Phase I - Replacement of the old Mint standard and Columbia presses.

Phase II- Begin replacing the Verson HME presses; those older than 20 years.

By the year 1994, the Mint should have ordered all the presses required for Phase I. Phase II will begin in fiscal year 1995.

Blanking Press Replacement

Our current blanking presses are old and technologically outdated. They are considerably slower than presses available on the market today. Although at the present time, Denver and Philadelphia keep-up with the required production, our blanking capacity will not be able to support increased coinage demand in the mid 1990's. Our plan is to replace the currently used slow equipment with more modern, faster blanking presses. We anticipate that replacement of Denver presses should begin as early as late FY 1990 to be installed during FY 1992 and continue the replacement program as shown in the object class 31 spread sheet in Section IV.

Annealing Equipment Replacement

Annealing is a critical operation in the manufacture of general circulation coins, numismatic coins and medals, and in the die manufacturing process. As a result, annealing furnaces and associated equipment are utilized at all of the production facilities of the U.S. Mint.

In recent years there have been advances in annealing technology, providing the capability to more closely monitor temperature, eliminate scaling and improve productivity. The five-year plan outlined proposes a selective replacement of worn and obsolete annealing equipment, in line with the ongoing program to improve the quality of U.S. coins and medals and increase productivity.

Retorts for Annealing Furnaces

Currently we have in use three annealing furnaces in Denver and three in Philadelphia. These furnaces include a rotating retort to transfer heat into the blanks. These retorts fail as a result of long exposures to temperatures up to 1700 degrees Fahrenheit. The replacement rate of the retorts vary between 18 months and 8 years, and averages about 5 years. For the six furnaces, we plan to replace two each in fiscal years 1989, 1993 and 1994.

Upset Mill Replacement

The Mint uses two types of upset mills for forming the rim on the blank. One style is for numismatic coinage and the other for circulating coins. The Mint is currently replacing the numismatic mills and will finish the program in FY-1990. The mills for circulating coins are undergoing replacement in Denver, starting in FY-1990. The five-year plan for 1991 to 1995 is shown. As the new mills are delivered, the older will be retired. Those that can be economically rebuilt will be kept in service as spare mills to handle peak production loads.

Lift Truck Replacement

Currently, the U.S. Mint has 207 Lift trucks at various facilities. Based on the Federal Stock Classification guidelines, the useful life of self propelled industrial trucks is 14 years. At the present time, 39% of the trucks are older than their useful life.

Many of these trucks will be obsolete after a automated material handling system is completed. Meanwhile these trucks are breaking down and require major and costly maintenance. Our plan during FY -91 through -95 is to continue the replacement program until the Automated Material Handling systems are installed. At that time, we plan to reevaluate the need for our lift truck fleet at each facility, and retain the most recent units. Since our plan is to automate only the Denver and Philadelphia facilities, other facilities will continue truck replacement on the ongoing basis.

Automated Count Bag and Stacking System

Under the R&D program, the U.S. Mint has successfully demonstrated the feasibility of robot stacking of cent bags onto the pallets. We are using this robot in production to reduce compensable back injuries of the operators and increase productivity. We have not completed a total counting, bagging and stacking operation. To continue the development, we intend to order a second robot system (R&D funds) with capability for expansion to handle multiple denominations.

Once the second robot system is developed and shows benefits to the Mint, we plan to change all Philadelphia and Denver bagging and stacking operations to an automated mode.

IV. OBJECT CLASS 31 - 5YR PLAN

UNITED STATES MINT
EQUIPMENT

REVISION DATE - OCTOBER 2, 1989

IV

UNITED STATES MINT
EQUIPMENT

OBJECT CLASS 31 - FIVE YEAR PLAN

Revision Date: Oct. 2, 1989

PROJECT	1991		1992		1993		1994		1995	
	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.
Summary by Facility										
Philadelphia	2,216,000	1,060,000	3,033,000	1,620,000	2,569,000	1,038,000	2,273,000	978,000	2,780,000	1,584,000
Denver	3,687,000	533,000	916,000	157,000	2,134,000	749,000	2,071,000	762,000	3,419,000	227,000
San Francisco		2,231,000		1,877,000		2,004,000		3,170,000		3,569,000
West Point		1,251,000		1,116,000		1,247,000		732,000		199,000
Fort Knox										
Security Mint Wide	55,000	47,500	160,000	270,000	180,000	250,000	160,000	290,000	150,000	260,000
ADP Mint Wide	460,000	2,066,000	140,000	760,000	120,000	680,000	130,000	770,000	130,000	870,000
Office Headquarters	97,000	25,500	20,000	50,000	15,000	60,000	15,000	70,000	20,000	60,000
Total	6,513,000	7,214,000	4,269,000	5,850,000	5,018,000	6,028,000	4,649,000	6,772,000	6,499,000	6,769,000
Total Prod. Facility Equip.	5,903,000	5,079,000	3,949,000	4,770,000	4,703,000	5,038,000	4,344,000	5,642,000	6,199,000	5,579,000

UNITED STATES MINT
EQUIPMENT

Philadelphia — OBJECT CLASS 31 - FIVE YEAR PLAN — Revision Date: Oct. 2, 1989

PROJECT	1991 Approp.	1991 Reimb.	1992 Approp.	1992 Reimb.	1993 Approp.	1993 Reimb.	1994 Approp.	1994 Reimb.	1995 Approp.	1995 Reimb.
Coining Presses		Semi-Auto 490,000	6 Hi-Speed 2,209,000	Semi-Auto 518,000	2 Hi-Speed 765,000	Semi-Auto 538,000	2 Hi-Speed 793,000	Semi-Auto 558,000	2 Hi-Speed 821,000	Semi-Auto 578,000
	Press Feed Units 750,000			Auto-Multi 520,000						Auto-Multi 585,000
Blanking	1 H.S. Blk. Press 425,000				Press 460,000		Press 478,000		Press 497,000	
Annealing Furnace	1 Auto. Furn. Feed 185,000			Belt Furn. 580,000	Retort Furn. 504,000					
Annealing Retort	Retort 97,000				Retort 105,000		Retort 109,000			
Upset	3 Mills 148,000		2 Mills 103,000				2 Mills 111,000			
Die Shop	Vac. Furn. Dies 150,000	150,000	2 Con. Grd. 150,000	Con. Grd. 75,000	Turning Center 215,000	215,000	Lathe 85,000	Miller 75,000		
	CNC Milling 125,000	125,000								
	CNC Turning 100,000	100,000								
Fork Trucks	2 Trucks 54,000		Truck 28,000	Truck 28,000	2 Trucks 58,000		2 Trucks 60,000		Truck 31,000	Truck 31,000
Miscellaneous										
Counters	2 Counters 20,000		2 Counters 21,000		2 Counters 22,000		2 Counters 22,000		2 Counters 22,000	
Sizers	6 Sizers 90,000		4 Sizers 62,000		4 Sizers 65,000				8 Sizers 134,000	
Maintenance Equipment			100,000	75,000	100,000	100,000	225,000	100,000	150,000	150,000
Quality Control	Stat. Proc. Control 12,000	12,000	100,000			75,000	100,000			100,000
	Spectrometer 15,000	15,000								
		X-Ray Gold 35,000								
Packaging		80,000						125,000		
Other Prod. Equip.	45,000	45,000	260,000	104,000	275,000	110,000	290,000	120,000	310,000	140,000
Robotics									815,000	
TOTALS	2,216,000	1,060,000	3,033,000	1,629,000	2,569,000	1,038,000	2,273,000	978,000	2,780,000	1,546,000

UNITED STATES MINT
EQUIPMENT

Denver — OBJECT CLASS 31 - FIVE YEAR PLAN — Revision Date: Oct. 2, 1989

PROJECT	1991		1992		1993		1994		1995	
	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.
Coining Presses	6 H.S. Press	1 Multi Strike			4 Hi-Speed	Semi-Auto	4 Hi-Speed	Semi-Auto	4 Hi-Speed	
	2,160,000	498,000			1,529,000	538,000	1,586,000	558,000	1,643,000	
Press Feed Units	750,000									
Blanking	H.S. Blnk. Press		Press							
	625,000		442,000							
Annealing Furnace									Rotary Furn.	
									564,000	
Annealing Retort	1 Retort				Retort		Retort			
	97,000				105,000		109,000			
Upset	2 Mills		Mill		Mill	Mill				
	98,000		51,000		53,000	40,000				
Fork Trucks	4 Trucks		Truck	Truck	2 Trucks		Truck		Truck	Truck
	108,000		28,000	28,000	58,000		30,000		31,000	31,000
Miscellaneous										
Counters			2 Counters		2 Counters			Counter		
			21,000		22,000			11,000		
Sizers			2 Sizers		2 Sizers			Sizer		
			31,000		32,000			17,000		
Maintenance Equipment			20,000	20,000	35,000	35,000	25,000	25,000	20,000	20,000
Quality Control			5,000	5,000	5,000	6,000	6,000	6,000	6,000	6,000
Other			40,000		20,000	20,000	25,000	25,000	30,000	30,000
Burnishing			2 Burnishers							
			18,000							
Other Prod. Equip.			260,000	104,000	275,000	110,000	290,000	120,000	310,000	140,000
Miscellaneous	35,000	35,000								
Safety	14,000									
Robotics									815,000	
TOTALS	3,687,000	533,000	916,000	157,000	2,134,000	749,000	2,071,000	762,000	3,419,000	227,000

UNITED STATES MINT
EQUIPMENT

OBJECT CLASS 31 - FIVE YEAR PLAN

Revision Date: Oct. 2, 1989

PROJECT	1991		1992		1993		1994		1995	
	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.
San Francisco										
Coining Presses		3 Proof Press 1,494,000		2 Semi-Auto 1,036,000 1 Auto-Multi 518,000		2 Semi-Auto 1,077,000 1 Auto-Multi 538,000		3 Semi-Auto 1,686,000 1 Auto-Multi 562,000		5 Semi-Auto 2,925,000
Annealing		Furn. Rebuild 290,000						1 Belt Furn 550,000		
Upsetters										1 Mill 58,000
Lift Trucks		3 Trucks 81,000		3 Trucks 84,000		3 Trucks 87,000		3 Trucks 90,000		3 Trucks 96,000
Miscellaneous										
Packaging		Label Machine 16,000	1	150,000					1	170,000
Quality Control						28,000				30,000
Counters			1	11,000			1	12,000		
Sizers					1	17,000				
Machine Shop		CNC Milling 250,000								
Other						175,000		185,000		200,000
Burnishing		125,000		78,000		82,000		85,000		90,000
		Drier 30,000								
Miscellaneous		35,000								
Total		2,231,000		1,877,000		2,004,000		3,170,000		3,569,000

UNITED STATES MINT
EQUIPMENT

OBJECT CLASS 31 - FIVE YEAR PLAN

Revision Date: Oct. 2, 1989

PROJECT	1991		1992		1993		1994		1995	
	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.
West Point										
Coining Presses		1 Semi-Auto		1 Semi-Auto		1 Semi-Auto		1 Semi-Auto		
		1 Manual		518,000		540,000		562,000		
		870,000		1 Manual		1 Manual				
				379,000		395,000				
Annealing						1 Belt				
						125,000				
Upsetter				1 Mill						
				51,000						
Lift Trucks		2 Trucks		1 Truck		1 Truck		2 Trucks		2 Trucks
		54,000		28,000		29,000		60,000		64,000
Miscellaneous										
Packaging		1 125,000								
Quality Control		Shrink Wrap		90,000		90,000		50,000		
		10,000								
		Q.C. Lab								
		20,000								
		X-Ray								
		50,000								
Machine Shop		Milling Machine		50,000		50,000		60,000		60,000
		105,000								
Other		17,000				18,000				75,000
Total		1,251,000		1,116,000		1,247,000		732,000		199,000

V. EXPANSION AND IMPROVEMENT PROGRAM

Our current facilities are outdated not only in terms of technology as related to machinery and equipment but also in terms of facilities layout, material handling capabilities, and die manufacturing capacity.

Denver Material Handling

We have started, under the Denver E&I program, the engineering of a material handling system in Denver during 1987. The available funding for implementing the system is only sufficient for doing the improvement in the new addition. It will be necessary to continue this program during years 1991 through 1995 to automate material handling throughout the Denver facility. The estimates for doing this are as follows:

Automate CPZ portion of blank feeding	$1,500,000
Automate feeding of 5¢ and 10¢ blanks at Bliss presses	500,000
Automate CPZ and subsidiary coin removal system	1,800,000
Automate Count-Bag and Stack System	5,000,000
	$4,500,000

Philadelphia Material Handling

We have completed the removal of the strip manufacturing equipment from the Philadelphia Mint during FY 1988. Currently, the space is empty and is used for storage of various items. We plan to upgrade the current manufacturing facility by: (1) automating the material movement; (2) respacing and relocating the blanking and coining presses, annealing furnaces and other equipment to reduce the amount of material movement within operations; and (3) adding updated equipment and machines as needed to form a more economical manufacturing process and to increase the manufacturing capacity to approximately 18 billion coins per year. It is not anticipated that a capacity of 18 billion coins will be required in Philadelphia until after FY-1995. The expenditure of funds and capacity will be phased in over time to react to coin demand. Accordingly, the estimated amounts for completing this work is as follows.

Material Handling System	$ 7,800,000
Respacing and Relocation of Equipment	2,100,000
Additional Equipment & Machinery	2,700,000
Total Philadelphia Improvements	$12,600,000

Note that additional Equipment and Machinery shown here are for reference only. The breakdown for each is shown elsewhere.

Die Manufacturing Expansion

With the increased domestic coinage and numismatic demand, there is a need for more dies. It is our plan to have Philadelphia die manufacturing continue producing the majority of dies for commercial coinage and set-up a die manufacturing facility for manufacturing numismatic and if needed some circulating type dies at San Francisco. Setting-up such a facility consists of refurbishing existing space, engineering layouts, procurement of equipment and installation. We intend to start setting up the die shop for low production output between years FY-91 to 93 and expand to higher outputs as required from FY-93 through FY-95. Accordingly, the budgeting for various equipment procurement and installation for each phase is:

Phase I, FY -91 through -93		$4,475,000
Phase II, FY -93 through -95		2,525,000
	TOTAL	$7,000,000

UNITED STATES MINT
EQUIPMENT

OBJECT CLASS 31 - FIVE YEAR PLAN

Revision Date: Oct. 2, 1989

PROJECT	1991		1992		1993		1994		1995	
	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.	Approp.	Reimb.
Fort Knox										
TOTALS	0	0	0	0	0	0	0	0	0	0

United States Mint, Salaries and Expenses

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	941	888	$50,735
Adjustments: Sequestration (P.L. 99-177, 100-119, 101-239)	0	0	684
FY 1990 Authorized Level	941	888	50,051
Estimate for FY 1991	951	905	$51,429

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1991

	Actual		Authorized Level		Budget Estimates		Increase or Decrease (0) for FY 1991					
	FY 1989		FY 1990		FY 1991		Total Changes		Program Changes		Other Changes	
	FTE Pos	Amount	FTE Pos	Amount	FTE Pos	Amount	FTE Pos	Amount	FTE Pos	Amount	FTE Pos	Amount
1. Manufacture of Coins (domestic)	775	$38,448	804	$40,681	779	$40,629	(25)	($52)	(25)	($23)	0	($29)
2. Protection of Monetary Metals and Coins	134	5,045	84	4,490	126	5,225	42	735	45	639	(3)	96
3. Research and Development	0	2,044	0	0	0	0	0	0	0	0	0	0
4. Capital Investment	0	1,977	0	4,880	0	5,575	0	695	0	449	0	246
Unobligated balance available, SOY		(2,620)		(1,241)		(1,241)		0		0		0
Unobligated balance available, EOY		1,241		1,241		1,241		0		0		0
Unobligated balance lapsing		865										
Total appropriation, authorized level, and budget estimate	909	$47,000	888	$50,051	905	$51,429	17	$1,378	20	$1,065	(3)	$313
Permanent positions	955		941		951		10		13		(3)	

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in thousands)

	COINING			PROTECTION			RESEARCH			CAPITAL INVESTMENT			TOTAL		
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
Program Changes:															
1. Increase for Support Services and Supplies	0	0	$737	0	0	$0	0	0	$0	0	0	$0	0	0	$737
2. Increase in Equipment	0	0	0	0	0	0	0	0	0	0	0	782	0	0	782
3. Increase for Lands & Structures	0	0	360	0	0	0	0	0	0	0	0	0	0	0	360
4. Restore A-76 Reductions	0	0	0	45	45	647	0	0	0	0	0	0	45	45	647
5. Program Reductions to Offset Pay and Other Absorptions:															
Coin Production(400 million coins)	(13)	(10)	(449)	0	0	0	0	0	0	0	0	0	(13)	(10)	(449)
Absorb Unfunded MCLs	0	0	(92)	0	0	(8)	0	0	0	0	0	(33)	0	0	(133)
Sequester Restor.(600 million coin)	(19)	(15)	(579)	0	0	0	0	0	0	0	0	(300)	(19)	(15)	(879)
Total Program Changes	(32)	(25)	(23)	45	45	639	0	0	0	0	0	449	13	20	1,065
Other Changes:															
Adjustments Necessary to Maintain Current Levels:															
1. Annualization of FY 1990 Pay Act Increases	0	0	271	0	0	29	0	0	0	0	0	0	0	0	300
2. Increased Cost for Proposed FY 1991 Pay Raise	0	0	545	0	0	80	0	0	0	0	0	0	0	0	625
3. Increased Costs for EX/SES Pay Raise (P.L.101-194)	0	0	58	0	0	8	0	0	0	0	0	0	0	0	66
4. Increased Cost for Additional Compensable Day	0	0	102	0	0	12	0	0	0	0	0	0	0	0	114
5. Increased Cost of Health Insurance	0	0	165	0	0	18	0	0	0	0	0	0	0	0	183
6. Increased Cost of Workers Compensation	0	0	36	0	0	4	0	0	0	0	0	0	0	0	40
7. Increased Cost of Benefits	0	0	12	0	0	1	0	0	0	0	0	0	0	0	13
8. Increased Cost of Travel and Transportation of Persons	0	0	11	0	0	1	0	0	0	0	0	0	0	0	12
9. Increased Cost of Transportation of Things	0	0	13	0	0	2	0	0	0	0	0	0	0	0	15
10. Increased Cost of Rent,Communications and Utilities	0	0	(62)	0	0	(8)	0	0	0	0	0	0	0	0	(70)
11. Increased Cost of Printing and Reproduction	0	0	4	0	0	0	0	0	0	0	0	0	0	0	4
12. Increased Cost of Other Services	0	0	134	0	0	12	0	0	0	0	0	0	0	0	146
13. Increased Cost of Supplies	0	0	148	0	0	17	0	0	0	0	0	0	0	0	165
14. Increased Cost of Equipment	0	0	0	0	0	0	0	0	0	0	0	205	0	0	205
Subtotal, Adjustmenst Necessary to Maintain Current Levels	0	0	1,437	0	0	176	0	0	0	0	0	205	0	0	1,818
Reductions, nonrecurring costs and savings:															
1. Nonrecurring Costs of Asbestos	0	0	(1,085)	0	0	0	0	0	0	0	0	0	0	0	(1,085)
2. TARMS Savings	0	0	0	(3)	(3)	(80)	0	0	0	0	0	0	(3)	(3)	(80)
3. Nonrecurring Costs of Utilities	0	0	(340)	0	0	0	0	0	0	0	0	0	0	0	(340)
4. Balance of Payroll Repricing	0	0	(61)	0	0	0	0	0	0	0	0	41	0	0	0
Subtotal, reductions, nonrecurring costs and savings	0	0	(1,466)	(3)	(3)	(80)	0	0	0	0	0	41	(3)	(3)	(1,505)
Total, Other Changes	0	0	(29)	(3)	(3)	96	0	0	0	0	0	246	(3)	(3)	313
Total, increases or decreases compared with FY 1990 Authorized Level	(32)	(25)	($52)	42	42	$735	0	0	$0	0	0	$695	10	17	$1,378

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

GENERAL STATEMENT

The United States Mint manufactures coins, receives deposits of gold and silver bullion, and safeguards the Government's holdings of monetary metals.

The operations of the Mint are divided into four principal activities. The role of each of these activities is discussed below:

1. Manufacture of coins (domestic). The manufacture of domestic coins is the major appropriated activity of the Mint. Coins are ordered from the Mint by the Federal Reserve Banks in quantities required for the Nation's business transactions. Thus, the volume of the coinage program is determined by the public demand for coins. In fiscal years 1990 and 1991, the United States Mint will produce 18.0 and 17.0 billion coins respectively.

   In FY 1989, a total of 18.034 billion coins were produced at a cost of $38,448,000.

   In FY 1990, we plan to manufacture 18.000 billion coins at a cost of $40,681,000.

   In FY 1991, the Mint plans to produce 17.000 billion coins at a cost of $40,629,000.

Appropriated costs for producing coins exclude: cost and storage of metals; and transportation charges of metals, blanks, and coins. These costs are funded by the Coinage Metal Fund and the Coinage Profit Fund.

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2. Protection of monetary metals and coins. The United States Mint is responsible for physical custody of the Government's stock of gold and silver bullion and coin which is located at five different Mint institutions.

3. Research and development. In FY 1985-1986, the Mint began the research and development program to enhance the productivity of our production equipment and processes. Funds provided for research and development remain available until expended. At the beginning of FY 1990, $1.2 million was available. Since there are no new projects currently in the planning, the Mint is not requesting any research and development funding in FY 1991.

4. Capital Investment. This activity funds the replacement of worn out and obsolete equipment, such as coining presses, blanking presses, fork lifts and lathes. In addition, equipment used by our police officers and administrative equipment such as ADP hardware are funded by this activity.

The FY 1991 budget requirement for the United States Mint includes 951 authorized positions, 905 full-time equivalent (FTE) positions, and $51.4 million -- an increase of $1.4 million and an increase of 17 FTE positions from the resource levels provided for FY 1990. The United States Mint's FY 1990 budget request reflects Presidential initiatives to restrain spending wherever possible, reduce the level of Federal civilian employment, use available staff to perform required workloads, and fund increases only in the highest priority areas.

The net requested increase of $1.4 million and 17 FTE positions is comprised of the following changes:

-- $0.7 million increase for support services and supplies;
-- $0.8 million increase for equipment acquisitions;
-- $0.4 million increase for land and structures improvements;
-- $0.7 million and 45 FTEs increase for restoration of A-76 reductions;
-- $1.8 million increase to maintain current services;
-- $1.1 million decrease for non-recurring costs of asbestos removal;
-- $0.1 million and 3 FTEs decrease for TARMS savings;
-- $0.3 million decrease for non-recurring costs of utilities due to decreased production needs;
-- $1.5 million and 25 FTEs decrease for pay-related and other program decreases.

DEPARTMENT OF THE TREASURY

UNITED STATES MINT

Federal Funds

General and Special Funds:

SALARIES AND EXPENSES

For necessary expenses of the United States Mint; ($50,735,000), $51,429,000 including amounts for purchase and maintenance of uniforms not to exceed $275 multiplied by the number of employees of the agency who are required by regulation or statute to wear a prescribed uniform in the performance of official duties. (Treasury Department Appropriations Act, 1990.)

SELECTED WORKLOAD DATA
(In Thousands)

Activities and Principal Workload Factors	1989 Actual	1990 Authorized	1991 Estimate	Percent Increase or Decrease (1991 over 1990)
1. Coinage (domestic)				
a. Total coins produced	18,034,000	18,000,000	17,000,000	- 5.56
b. Net payout	15,446,000	16,365,000	17,191,000	+ 5.05
c. Combined Mint/FRB inventory, end of year	6,203,000	7,838,000	7,647,000	- 2.44
2. Bullion and numismatic programs (reimbursable)				
Total coins and medals produced	48,000	60,000	58,000	- 3.33

United States Mint, Salaries and Expenses

COINAGE COSTS FINANCED BY APPROPRIATION & COINAGE METAL FUND

FY 1989 - ACTUAL

Total	Production (Millions)	Unit Cost Per Thousand			Funding (thousands)		
		S & E Appro'n (Mfg.)	Coinage Metal Fund	Total Unit Cost	S & E Appro'n	Coinage Metal Fund	Total
1 cent	12,837	$1.36	$5.24	$6.60	$17,504	$67,253	$84,757
5 cent	1,498	3.71	22.23	25.94	5,553	33,287	38,840
10 cent	2,241	2.58	11.66	14.24	5,775	26,130	31,905
25 cent	1,417	4.18	27.68	31.86	5,929	39,257	45,186
50 cent	41	8.43	49.33	57.76	347	2,033	2,380
	18,034				$35,108	$167,960	$203,068
	Depreciation				(1,469)	0	(1,469)
					$33,639	$167,960	$201,599
	Deposits				1,233	0	1,233
	Change in Selected Resources				3,576	0	3,576
	Total Cost				$38,448	$167,960	$206,408

United States Mint, Salaries and Expenses

COINAGE COSTS FINANCED BY APPROPRIATION & COINAGE METAL FUND

FY 1990 - ESTIMATES

Total	Production (Millions)	Unit Cost Per Thousand			Funding (thousands)		
		S & E Appro'n (Mfg.)	Coinage Metal Fund	Total Unit Cost	S & E Appro'n	Coinage Metal Fund	Total
1 cent	12,770	$1.50	$6.36	$7.86	$19,125	$81,207	$100,332
5 cent	1,495	4.05	28.96	33.01	6,049	43,295	49,344
10 cent	2,053	2.81	13.29	16.10	5,772	27,289	33,061
25 cent	1,642	4.68	33.13	37.81	7,680	54,408	62,088
50 cent	40	9.83	66.27	76.10	393	2,651	3,044
	18,000				$39,019	$208,850	$247,869
	Depreciation				(1,530)	0	(1,530)
					$37,489	$208,850	$246,339
	Deposits				1,280	0	1,280
	Asbestos Removal				1,300	0	1,300
	Building Improvements				612	0	612
	Total Cost				$40,681	$208,850	$249,531

COINAGE COSTS FINANCED BY APPROPRIATION & COINAGE METAL FUND

FY 1991 - ESTIMATES

Total	Production (Millions)	Unit Cost Per Thousand			Funding (thousands)		
		S & E Appro'n (Mfg.)	Coinage Metal Fund	Total Unit Cost	S & E Appro'n	Coinage Metal Fund	Total
1 cent	12,056	$1.61	$6.47	$8.08	$19,438	$78,000	$97,438
5 cent	1,258	4.36	29.11	33.47	5,480	36,625	42,105
10 cent	1,952	3.03	13.50	16.53	5,908	26,353	32,261
25 cent	1,694	5.03	33.66	38.69	8,529	57,007	65,536
50 cent	40	10.58	67.30	77.88	423	2,692	3,115
	17,000				$39,778	$200,677	$240,455
Depreciation					(1,595)	0	(1,595)
					$38,183	$200,677	$238,860
Deposits					1,259	0	1,259
Asbestos Removal					215	0	215
Building Improvements					972	0	972
Total Cost					$40,629	$200,677	$241,306

United States Mint, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS BY CATEGORY

(Number of FTE Positions)

	Actual	Estimated		Increase/Decrease for 1991		
	1989	1990	1991	Total Changes	Program Changes	Other
Manufacturing Trades and Crafts (Wage Board Employees)	444	512	487	-25	0	-25
Protective Force	134	84	126	42	45	-3
All Other	251	280	280	0	0	0
Subtotal	829	876	893	17	45	-28
Temporary Full Time Equivalent Positions	80	12	12	0	0	0
Total Full Time Equivalent Positions	909	888	905	17	45	-28

United States Mint, Salaries and Expenses

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the United States Mint proposes the following adjustments in FY 1990 spending ($000):

Object Classification	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9 Total Personnel Compensation.....	$28,204	($367)	($1,661)	$26,176
12.0 Total Benefits.....	5,422	(67)	(252)	5,103
21.0 Total Travel.....	293	(3)	0	290
22.0 Total Transportation.....	368	(4)	0	364
23.1 GSA Rent.....	308	0	23	331
23.3 Total Communications & Utilities...	3,927	(57)	(23)	3,847
24.0 Printing.....	51	(1)	0	50
25.0 Total Other Services.....	4,442	(75)	100	4,467
26.0 Total Supplies.....	3,702	(60)	287	3,929
31.0 Total Equipment.....	3,441	(47)	1,486	4,880
32.0 Lands & Structures.....	575	(3)	40	612
42.0 Insurance Claims.....	2	0	0	2
Total	$50,735	($684)	$0	$50,051
Activity				
Manufacture of Coins.....	$42,645	($575)	($1,389)	$40,681
Protection of Monetary Metal and Coins.....	4,649	(62)	(97)	4,490
Research and Development.....	0	0	0	0
Capital Investment.....	3,441	(47)	1,486	4,880
Total	$50,735	($684)	$0	$50,051

1/29/90

Mint, S&E-1

United States Mint, Salaries and Expenses

Explanation of Congressional Action

The FY 1990 full year appropriation was $684,000 less than the FY 1990 President's Budget. This was a result of GRH reductions which are required by law to be applied to all programs, projects and activities (PPA).

Explanation of Reprogrammings

Due to changes in workload and cost estimates, the United States Mint proposes to adjust FY 1990 programs submitted to the Congress in the FY 1990 budget by redirecting funds of $1,913,000 to be derived internally from:

- Salaries and Personnel Benefits: Based on FY 1989 actual costs for salaries and benefits, and reduced coin demand resulting in a decrease in coin production of 1.5 billion coins, $1,913,000 was reprogrammed from salaries and benefits for additional contractual services, supplies, and equipment. This request for reprogramming is in direct response to recent GAO recommendations to proceed with contractual arrangements for improving our accounting systems and to allocate additional funding for ADP equipment acquisitions.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

In FY 1991 funding requirements for the United States Mint are projected to be $51,429,000. Total increases of $4,344,000 are offset by $2,966,000 in program reductions and non-recurring expenses, resulting in a net increase of $1,378,000 over the FY 1990 funding level of $50,051,000. In addition, total increases of 45 FTE positions from an A-76 restoration are offset by a reduction of 28 FTE positions from program reductions and TARMS savings, resulting in a net increase of 17 FTE positions from the FY 1990 staffing levels.

PROGRAM CHANGES

Total Requested Program Changes	$1,065,000 20 FTE Pos.

The program changes requested for FY 1991 will improve the support to the Director and other senior officials of the Mint in the operation of this essential agency.

1. Increased Support Services and Supplies $737,000

This increase is for the purchase of spare parts, chemicals needed for wastewater treatment and costs of contractual and janitorial services which are above inflationary factors.

2. Increased Equipment $782,000

The increase in funds for equipment is to accelerate and further improve Mint productivity through state-of-the-art technology and to replace worn-out and obsolete equipment.

3. Land & Structures $360,000

This Land & Structure increase will allow improvements to heating, ventilation and air conditioning at Philadelphia, Denver, and Fort Knox. Additionally, it will provide for refurbishing and maintenance at our facilities.

4. Restore A-76 reduction $647,000

This increase is the result of a recalculation by the Treasury Department of estimated FY 1990 savings of an A-76 study on contracting security functions.

5. Program reductions to offset pay costs and other absorptions . . . . . ($1,461,000)

Coin production (400 million coins)	($449,000)
Absorb unfunded MCL's	($133,000)
Sequester Restorations (600 million coins)	($879,000)

The funding for program changes by object class is as follows:

Personal Services	$(274,000)
Utilities	(51,000)
Other Services	(48,000)
Supplies	620,000
Equipment	458,000
Land and Structures	360,000

OTHER CHANGES

Total Other Changes	$313,000 (3) FTE Pos.
Adjustments necessary to maintain current levels	$1,818,000
1. Annualization of January 1990 Pay Act Increases	$300,000

This amount represents one-quarter of the FY 1990 base amount for the January 1990 pay raise which was effective for three-quarters of the year in FY 1990. The amount includes the cost of salaries and benefits.

2. Increased Cost for Proposed FY 1991 Pay Raise	$625,000

This amount reflects the cost of salaries and benefits for three-quarters of the year for a proposed 3.5% pay raise.

3. Increased Costs for EX/SES Pay Raise (P.L. 101-194)	$66,000

This amount reflects the cost of salaries and benefits for increases pursuant to P.L. 101-194.

4. Increased Costs for Additional Compensable Day	$114,000

This amount reflects the increased cost of salaries and benefits for one additional compensable day in FY 1991.

United States Mint, Salaries and Expenses

5.	Increased Cost of Health Insurance	$183,000
	The Office of Personnel Management (OPM) projects a general increase of 15% for agency contributions to employee health benefits.	
6.	Increased Cost of Workers Compensation	$40,000
	This increase represents the actual 1989 Workers' Compensation Fund billing that will be paid in FY 1991 over that budgeted for FY 1990.	
7.	Increased cost of Benefits	$13,000
	The deflator of 4.2% has been applied.	
8.	Increased Cost of Travel and Transportation of Persons	$12,000
	GSA currently estimates a 6.5% increase over FY 1990 levels.	
9.	Increased Cost of Transportation of Things	$15,000
	The deflator of 4.2% has been applied.	
10.	Decreased Cost of Rent, Communications and Utilities	($70,000)
	Decreased cost due to DTS and FTS estimated reductions.	
11.	Increased Cost of Printing and Reproduction	$4,000
	The Government Printing Office (GPO) projects a 7% increase.	

12.	Increased Cost of Other Service	$146,000
	Increases reflect the conversion costs to the new payroll system in FY 1991; an increase of 4.2% has been applied to all other services.	
13.	Increased Cost of Supplies and Materials	$165,000
	The deflator of 4.2% has been applied.	
14.	Increased Costs of Equipment	$205,000
	The deflator of 4.2% has been applied.	
Reductions, non-recurring costs and savings		($1,505,000) (3) FTE Pos.
1.	Non-recurring Costs	($1,425,000)
	Non-recurring costs are from the reduced asbestos funding and reductions in utility estimates.	
2.	Savings	($80,000) (3) FTE Pos.
	Productivity savings from Treasury Audit Recommendation Monitoring System (TARMS).	

United States Mint, Salaries and Expenses

Standard Classification Schedule
(Direct Obligations Only, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	955	941	951	(-10)
Full time equivalent (FTE) workyears	909	888	905	(-17)
Object Classification				
Personnel Compensation:				
Permanent positions	$22,677	$24,951	$25,968	$1,017
Positions other than permanent	1,718	162	169	7
Other personnel compensation	2,010	1,063	1,107	44
Special personal services payments	0	0	0	0
Total personnel compensation	26,405	26,176	27,244	1,068
Personnel benefits	4,811	5,103	5,546	443
Benefits for former personnel	118	0	0	0
Travel and transportation of persons	191	290	300	10
Transportation of things	298	364	376	12
Rents, communications and utilities:				
Rental payments to GSA	289	331	390	59
Rental payments to others	0	0	0	0
Other rent, communications, & utilities	3,104	3,847	3,313	(534)
Printing and reproduction	36	50	53	3
Other services	3,589	4,467	2,936	(1,531)
Supplies and materials	3,794	3,929	4,722	793
Equipment	1,977	4,880	5,575	695
Land and structures	853	612	972	360
Insurance claims and indemnities	5	2	2	0
Total Direct Obligations	45,470	50,051	51,429	1,378
Unobligated balance lapsing	865	0	0	0
Transferred to other accounts	0	0	0	0
Obligations of prior year funds	2,034	0	0	0
Unobligated balance, start of year	(2,610)	(1,241)	(1,241)	0
Unobligated balance, end of year	1,241	1,241	1,241	0
Total actual obligations, proposed authorized level, and budget estimate	$47,000	$50,051	$51,429	$1,378

United States Mint, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate
Senior Executive Service Level 5.....	1	1	1
Senior Executive Service Level 4.....	3	3	3
Senior Executive Service Level 3.....	1	1	1
Subtotal.....	5	5	5
GS-18.....	1	1	1
GS/GM-15.....	13	13	13
GS/GM-14.....	25	25	25
GS/GM13.....	55	55	55
GS-12.....	32	32	32
GS-11.....	31	30	30
GS-10.....	3	3	3
GS-09.....	26	25	25
GS-08.....	28	28	28
GS-07.....	53	52	52
GS-06.....	21	21	21
GS-05.....	138	127	137
GS-04.....	24	24	24
GS-03.....	14	14	14
GS-02.....			
Subtotal.....	464	450	460
Ungraded.....	486	486	486
Total, permanent positions.....	955	941	951
Unfilled positions, end of year.....	(46)	(53)	(46)
Total, permanent employment, end of year..	909	888	905

United States Mint, Salaries and Expenses

DETAIL OF AVERAGE GRADES AND SALARIES

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate
Average ES salary	$76,633	$89,833	$89,833
Average GS grade	8.22	8.23	8.24
Average GS salary	$27,355	$28,094	$29,762
Average salary of ungraded positions	$25,597	$26,288	$27,159

United States Mint, Expansion and Improvements

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	$0
Estimate for FY 1991	550

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1991

	Actual		Authorized Level		Budget Estimates		Increase or Decrease (0) for FY 1991					
	FY 1989		FY 1990		FY 1991		Total Changes		Program Changes		Other Changes	
	FTE Pos	Amount	FTE Pos	Amount	FTE Pos	Amount	FTE Pos	Amount	FTE Pos	Amount	FTE Pos	Amount
1. Expansion and Improvements	0	$0	0	$0	0	$550	0	$550	0	$550	0	$0
Total appropriation, authorized level, and budget estimate	0	$0	0	$0	0	$550	0	$550	0	$550	0	$0

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in thousands)

	ACTIVITY 1			TOTAL		
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
Program Changes:						
1. Increase for materials handling system.....	0	0	$550	0	0	$550
Total Program Changes	0	0	550	0	0	550
Total, increases or decreases compared with FY 1990 Authorized Level.....	0	0	$550	0	0	$550

United States Mint, Expansion and Improvements

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

A contract was awarded during FY 1989 to automate the production operation in Denver. The obligated funding will provide automated delivery of nickel, dime and quarter blanks to coining presses. In FY 1991, we are preparing to award an architectural and engineering contract to design and prepare a statement of work for the completion of the automation in Denver. It is expected that the architectural and engineering phase will be completed and we will request expansion and improvements equipment funds in the FY 1993 budget.

The current production operation in Philadelphia is totally manually operated. It is proposed to provide an automated materials handling system for Philadelphia which may be different in nature because of the larger distances materials travel in Philadelphia relative to Denver. During FY 1991, we would like to commence an architectural and engineering design of a system for Philadelphia. It is expected that this architectural and engineering work will result in a request for expansion and improvements equipment funds no earlier than FY 1994.

The completion of the Denver system would occur approximately in FY 1995 and the Philadelphia system in FY 1997. The net result will be a more efficient and safer working environment.

United States Mint

Expansion and Improvements

For expansion and improvements to existing Mint facilities and for renovation of such facilities as may be acquired, $550,000, to remain available until expended.

United States Mint, Expension and Improvements

Standard Classification Schedule
(Direct Obligations Only, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
No employees are paid from this account				
Object Classification:				
Other Services	$60	$558	$550	($8)
Equipment	2,397	0	0	0
Total Obligations	2,457	558	550	(8)
Total Appropriation, Authorized level and Budget Estimate	0	0	550	550
Unobligated Balance, start of year	(3,015)	(558)	0	558
New Budget Authority	0	0	550	550
Recovery of Prior Year Obligations	0	0	0	0
Unobligated Balance, End of Year	$558	$0	$0	$0

PRODUCTS AVAILABLE FROM THE
UNITED STATES MINT
FOR CALENDAR YEAR 1990

U.S. Congressional Coins

Clad Proof Half Dollar	$ 8.00
Silver Dollar Proof	29.00
2-Coin Proof Set (Half and Silver)	34.00
Gold Five Dollar Proof	215.00
3-Coin Proof Set	245.00
Clad Uncirculated Half Dollar	6.00
Silver Dollar Uncirculated	26.00
2-Coin Uncirculated Set (Half and Silver)	29.50
Gold Five Dollar Uncirculated	200.00
3-Coin Uncirculated Set	225.00
6-Coin Proof/Uncirculated Set	480.00
1989 Prestige Set	52.00

1990 Eisenhower Centennial Commemorative Coins

Proof Silver Dollar	$ 29.00
Uncirculated Silver Dollar	26.00
1990 Prestige Set	46.00

1989 Uncirculated Sets (Available for a time during 1990)	$ 7.00
1990 Uncirculated Sets	$ 7.00
1989 Proof Sets (Available for a time during 1990)	$ 11.00
1990 Proof Sets (Will become available in late spring)	$ 11.00

1990 American Eagle Proof Coins
(Sale of the One Ounce, One-Half Ounce, One-Quarter Ounce, and One-Tenth Ounce Gold Proof Coins and the Silver Proof Coins will begin in late July. Prices of the coins are to be determined.)

1990 American Eagle Bullion Coins

The American Eagle Bullion Coins are directed toward the precious metals investment market and are an investment alternative to the bullion coins produced by other countries. Although the American Eagle Bullion Coins are not available directly from the U.S. Mint, they can be purchased from local coin shops, precious metals dealers, brokerage firms, and financial institutions. The price of the coins is the current market price of the gold or silver content plus a premium.

Susan B. Anthony Dollars

Souvenir Set (Consists of uncirculated dollars from the Denver, Philadelphia and San Francisco Mints for the years 1979 and 1980)	$ 10.00
100 Coin Bag	$ 110.00
2,000 Coin Bag	$2,050.00

FY 1991 House Appropriations Hearing

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WEDNESDAY, FEBRUARY 28, 1990.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

WITNESSES

CHARLES F. RINKEVICH, DIRECTOR
RJ. MILLER, DEPUTY DIRECTOR
WILLIAM M. KELSO, ASSISTANT DIRECTOR (ADMINISTRATION)
JOHN C. DOOHER, ASSISTANT DIRECTOR (WASHINGTON OFFICE)
DENNIS STATON, COMPTROLLER
DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT, DEPARTMENT OF THE TREASURY

Mr. ROYBAL. This committee will now hear from the Federal Law Enforcement Training Center and ask you, Mr. Rinkevich, to proceed in any manner that you may desire.

Mr. RINKEVICH. Thank you very much, Mr. Chairman. I would like to submit the long statement for the record and just give you a very quick summary and then reserve the balance of time for questions.

Mr. ROYBAL. Without objection, that will be the order.

[The information follows:]

DEPARTMENT OF THE TREASURY
FEDERAL LAW ENFORCEMENT TRAINING CENTER
GLYNCO, GEORGIA 31524

STATEMENT OF

CHARLES F. RINKEVICH

DIRECTOR

FEDERAL LAW ENFORCEMENT TRAINING CENTER

REGARDING

FISCAL YEAR 1991 APPROPRIATIONS

FOR PRESENTATION TO THE SENATE SUBCOMMITTEE

ON TREASURY, POSTAL SERVICE AND GENERAL GOVERNMENT

MARCH 1, 1990

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO BE HERE TODAY TO REPORT ON THE OPERATIONS OF THE FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC) AND TO SUPPORT OUR APPROPRIATION REQUEST FOR FISCAL YEAR 1991.

AT THIS TIME, I WOULD LIKE TO INTRODUCE THE REPRESENTATIVES OF THE CENTER WHO HAVE ACCOMPANIED ME: R. J. MILLER, DEPUTY DIRECTOR; JOHN C. DOOHER, ASSISTANT DIRECTOR, WASHINGTON OFFICE; WILLIAM M. KELSO, ASSISTANT DIRECTOR, OFFICE OF ADMINISTRATION; GREGORY F. KUNTZ, ASSISTANT TO THE DIRECTOR; J. DENNIS STATON, THE CENTER'S COMPTROLLER; KENNETH V. SCALLY, PROJECT ANALYST; AND MYRTIS A. BARKER, STAFF ASSISTANT, WASHINGTON OFFICE.

TODAY, I AM PREPARED TO DISCUSS A NUMBER OF OUR INITIATIVES THAT ARE OUTLINED IN THE PRESIDENT'S BUDGET SUBMITTED IN JANUARY. THE CENTER'S FY 1991 REQUEST IS FOR A SALARIES & EXPENSES (S&E) APPROPRIATION OF $36,727 THOUSAND; A NET INCREASE OF $1,228 THOUSAND OVER THE FY 1990 LEVEL. OUR REQUEST FOR ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES (ACI&RE) IS $18,735 THOUSAND, AN INCREASE OF $3,735 THOUSAND OVER THE FY 1990 LEVEL. COUPLED WITH $15,908 THOUSAND IN FUNDS TO BE REIMBURSED TO US BY OUR PARTICIPATING AGENCIES FOR TRAINING RELATED SERVICES, OUR TOTAL BUDGET FOR FY 1991 WILL BE $71,370 THOUSAND IF THIS REQUEST IS APPROVED.

AS YOU KNOW, THE CENTER'S MISSION IS TO CONDUCT BASIC AND ADVANCED TRAINING FOR THE MAJORITY OF THE FEDERAL GOVERNMENT'S LAW ENFORCEMENT PERSONNEL. WE ALSO PROVIDE TRAINING FOR STATE AND LOCAL LAW ENFORCEMENT IN SPECIALIZED AREAS AND SUPPORT THE TRAINING PROVIDED BY OUR PARTICIPATING AGENCIES THAT IS SPECIFIC TO THEIR NEEDS.

THROUGHOUT THE YEARS, THE CENTER HAS BECOME KNOWN AS AN ORGANIZATION THAT PROVIDES HIGH QUALITY AND COST EFFICIENT TRAINING WITH A "CAN DO" ATTITUDE AND STATE OF THE ART PROGRAMS AND FACILITIES.

DURING MY SEVEN YEAR ASSOCIATION WITH THE CENTER, I HAVE SEEN FIRST-HAND THE MANY ADVANTAGES OF CONSOLIDATED TRAINING FOR FEDERAL LAW ENFORCEMENT PERSONNEL, NOT THE LEAST OF WHICH IS AN ENORMOUS COST SAVINGS TO THE GOVERNMENT. CONSOLIDATED TRAINING AVOIDS THE DUPLICATION OF OVERHEAD COSTS THAT WOULD BE INCURRED BY THE OPERATION OF MULTIPLE AGENCY TRAINING SITES. FURTHERMORE, BECAUSE OF CONSOLIDATED TRAINING WE ESTIMATE THE GOVERNMENT WILL AVOID $77.3 MILLION IN PER DIEM COSTS ALONE, BASED ON THE PROJECTED FY 1991 WORKLOAD AND PER DIEM RATES IN WASHINGTON AND OTHER MAJOR CITIES OF $127.00/DAY VERSUS THE COST OF HOUSING AND FEEDING A STUDENT AT GLYNCO OF $21.00/DAY. CONSOLIDATION ALSO ENSURES A CONSISTENT, HIGH QUALITY OF TRAINING AND FOSTERS COOPERATION AND CAMARADERIE IN FEDERAL LAW ENFORCEMENT.

WE ARE PARTICULARLY PROUD THAT IN THE LAST FEW YEARS WE HAVE BEEN ABLE TO MAINTAIN THAT HIGH QUALITY TRAINING IN SPITE OF OUR ENORMOUS GROWTH AND THE STRAIN IT HAS PLACED ON CENTER STAFF AND FACILITIES.

PRESIDENT BUSH'S VISIT

ON JUNE 15, 1989, WE WERE HONORED THAT PRESIDENT BUSH VISITED GLYNCO. DURING HIS VISIT THE PRESIDENT ANNOUNCED SEVERAL NEW INITIATIVES THE ADMINISTRATION PLANNED OR HAD RECENTLY TAKEN IN ITS WAR AGAINST CRIME. IN HIS REMARKS THE PRESIDENT ALSO PRAISED THE QUALITY OF FACILITIES AND TRAINING OFFERED AT THE CENTER. HE EMPHASIZED THE IMPORTANT ROLE THAT CONSOLIDATED TRAINING PLAYS IN FOSTERING INTERAGENCY COOPERATION AND VOICED HIS STRONG SUPPORT OF THE FEDERAL LAW ENFORCEMENT TRAINING CENTER CONCEPT.

WORKLOAD

DURING FISCAL YEAR 1989 THE CENTER GRADUATED 23,373 STUDENTS, REPRESENTING 94,769 STUDENT-WEEKS OF TRAINING. THIS TOTAL INCLUDED 18,395 STUDENTS WHO WERE TRAINED AT GLYNCO; 2,551 STUDENTS TRAINED AT OUR SATELLITE CENTER AT MARANA, ARIZONA; AND 2,427 STUDENTS TRAINED IN EXPORT PROGRAMS CONDUCTED AT VARIOUS LOCATIONS THROUGHOUT

THE UNITED STATES INCLUDING 363 BORDER PATROL STUDENTS AT FT. McCLELLAN, ALABAMA. THE TOTAL INCLUDES 10,951 BASIC STUDENTS; 9,142 ADVANCED STUDENTS; AND 3,280 STATE AND LOCAL STUDENTS.

THE BUDGET DOCUMENTATION WHICH WE HAVE SUBMITTED INDICATES THAT DURING FISCAL YEAR 1990 THE CENTER EXPECTS TO TRAIN A TOTAL OF 29,348 STUDENTS, REPRESENTING 104,886 STUDENT WEEKS. THIS TOTAL WILL INCLUDE 25,287 STUDENTS TRAINED AT GLYNCO; 2,214 STUDENTS TRAINED AT OUR SATELLITE CENTER AT MARANA, ARIZONA; 702 STUDENTS TRAINED AT OUR NEW SATELLITE CENTER IN ARTESIA, NEW MEXICO; AND 1,145 STUDENTS IN EXPORT PROGRAMS. THE TOTAL INCLUDES 11,911 BASIC STUDENTS; 13,638 ADVANCED STUDENTS; AND 3,799 STATE AND LOCAL STUDENTS.

IN SPITE OF THESE EARLIER PROJECTIONS BY OUR AGENCIES, WE NOW HAVE INDICATIONS THAT WHILE THE OVERALL WORKLOAD WILL LIKELY BE AT THE SAME LEVEL AS PROJECTED, THE MIX OF TRAINING WILL CHANGE. THAT IS, WE WILL BE DOING LESS BASIC TRAINING AND MORE ADVANCED TRAINING. THIS IS THE RESULT OF SHIFTING BUDGET PRIORITIES AND THE NEED TO ACCOMMODATE MORE ADVANCED TRAINING WHICH, BY NECESSITY, OUR AGENCIES HAVE BEEN FORCED TO DEFER IN PAST YEARS.

THE CENTER PROJECTS THAT IN FY 1991 A TOTAL OF 32,174 STUDENTS WILL BE TRAINED, REPRESENTING 104,105 STUDENTS WEEKS OF TRAINING. THIS TOTAL INCLUDES 26,072 STUDENTS AT GLYNCO; 2,037 AT MARANA;

2,920 STUDENTS AT ARTESIA; AND 1,145 STUDENTS IN EXPORT PROGRAMS. THE TOTAL INCLUDES 11,666 BASIC STUDENTS; 16,701 ADVANCED STUDENTS; AND 3,807 STATE AND LOCAL STUDENTS.

OUR BUDGET REQUEST BEFORE YOU TODAY PROVIDES FUNDING FOR 100% OF THE DIRECT COST OF THE FY 1991 BASIC TRAINING, AS PROJECTED BY OUR PARTICIPATING ORGANIZATIONS.

TEMPORARY FACILITIES

MR. CHAIRMAN, AS YOU KNOW, THE CENTER HAS EXPERIENCED SIGNIFICANT GROWTH IN THE TRAINING DEMANDED BY ITS PARTICIPATING AGENCIES. WE HAVE BEEN ABLE TO ACCOMMODATE THESE INCREASED TRAINING NEEDS BY UNDERTAKING EXTRAORDINARY MEASURES. IN ORDER TO ACCOMMODATE THE INCREASES THE CENTER HAS BEEN REQUIRED TO TEMPORARILY EXPAND OUR CAPACITY FOR HOUSING, DINING, CLASSROOM, OFFICE SPACE, AND SPECIAL TRAINING FACILITIES DURING THE LAST TWO YEARS.

WITH THE ADDITION OF A NEW DORMITORY IN APRIL OF 1989, ON-CENTER HOUSING WILL NOW ACCOMMODATE 1,436 STUDENTS. HOWEVER, THIS NUMBER OF ROOMS IS STILL NOT ADEQUATE TO HOUSE ALL OF THE STUDENTS ATTENDING TRAINING IN A GIVEN WEEK. OUR AVERAGE RESIDENT STUDENT POPULATION IN OFF-CENTER HOUSING WAS 499 DURING FY 1989. TO ADDRESS THIS SHORTFALL, THE CENTER HAS CONTINUED CONTRACTS WITH MOTELS IN THE LOCAL COMMUNITY TO PROVIDE ADDITIONAL HOUSING.

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THIS ARRANGEMENT PROVIDES UP TO 400 ADDITIONAL ROOMS HOUSING UP TO 800 ADDITIONAL STUDENTS AS NEEDED. UNFORTUNATELY, HOUSING STUDENTS OFF-CENTER INCREASES LODGING COST TO THE GOVERNMENT AND DETRACTS FROM THE STUDENTS TRAINING EXPERIENCE. THIS ALSO INCREASES OUR TRANSPORTATION COSTS BECAUSE SPECIAL ARRANGEMENTS MUST BE MADE TO ALLOW THOSE STUDENTS HOUSED OFF-CENTER REASONABLE ACCESS TO GLYNCO'S DINING AND OTHER SUPPORT FACILITIES.

OTHER TEMPORARY MEASURES TAKEN TO EXPAND THE TRAINING CAPACITY AT GLYNCO, MENTIONED IN MY TESTIMONY LAST YEAR, ARE STILL NEEDED AND REMAIN IN PLACE TODAY. GLYNCO'S DINING HALL, WITH A SEATING CAPACITY OF 1,800, MUST STILL BE SUPPLEMENTED BY A TEMPORARY SATELLITE DINING FACILITY LOCATED IN THE RENOVATED FIRST FLOOR OF A NEARBY BUILDING. THE FACILITY IS NEEDED TO PROVIDE SUFFICIENT SEATING CAPACITY AND MEAL SERVICE TO MEET PEAK WORKLOAD DEMANDS.

STILL BEING UTILIZED ARE THE 26 PORTABLE BUILDINGS (TRAILERS) PURCHASED IN JANUARY, 1988 TO MEET THE EXTRA DEMAND FOR CLASSROOMS AND OFFICES. THEY HAVE STATE OF THE ART EQUIPMENT AND FURNISHINGS TO ENSURE THE MAINTENANCE OF QUALITY TRAINING. FIFTEEN OF THESE TRAILERS ARE USED FOR CLASSROOMS, AND THE REMAINING ELEVEN ARE DEVOTED TO FACULTY OFFICES OR SUPPORT ACTIVITIES.

OTHER CHANGES MADE TO ADDRESS THE NEED FOR ADDITIONAL PHYSICAL TRAINING SPACE ARE ALSO STILL IN PLACE. THE SECOND AND THIRD FLOORS OF THE SATELLITE DINING FACILITY MENTIONED PREVIOUSLY ARE STILL USED FOR PHYSICAL TRAINING. ALSO, TWO CARDIOPULMONARY RESUSCITATION (CPR) TRAINING ROOMS HAVE BEEN RELOCATED FROM THE PHYSICAL TRAINING BUILDING IN ORDER TO PROVIDE EXTRA TRAINING SPACE IN THAT COMPLEX. A THIRD CPR TRAINING ROOM IS LOCATED IN ONE OF THE TRAILERS.

SEVEN RESIDENCES THAT WERE USED FOR VISITING INSTRUCTOR HOUSING IN THE PAST ARE NOW BEING USED AS TEMPORARY OFFICES FOR STAFF. FURTHER, SOME OFFICES THAT WERE DESIGNED TO SUPPORT ONE PERSON ARE NOW USED BY TWO. THESE ADJUSTMENTS WERE REQUIRED TO PROVIDE OFFICE SPACE FOR THE GROWING NUMBERS OF PERMANENT AND TEMPORARY STAFF NEEDED TO HANDLE THE INCREASED WORKLOAD.

FUNDING REQUESTED IN THIS BUDGET FOR CONTINUED IMPLEMENTATION OF THE MASTER PLAN WILL HELP ALLEVIATE THESE OVERCROWDED CONDITIONS AND MOVE THE CENTER CLOSER TO ITS GOAL OF A STATE OF THE ART FACILITY CAPABLE OF MEETING ALL OF THE TRAINING NEEDS OF OUR AGENCIES.

FACILITIES MASTER PLAN

MR. CHAIRMAN, BEFORE GETTING INTO SPECIFICS OF THE CENTER'S MASTER PLAN, I WOULD LIKE TO TAKE A MINUTE TO REPORT ON PROGRESS WE ARE MAKING WITH RESPECT TO HOUSING ALL OF OUR STUDENTS ON CENTER.

APPROXIMATELY $600 THOUSAND OF CONSTRUCTION MONIES APPROPRIATED BY CONGRESS IN FY 1989 WERE EARMARKED FOR STARTING THE DESIGN AND INITIAL WORK FOR CONSTRUCTION OF A NEW DORMITORY. CONGRESS APPROPRIATED AN ADDITIONAL $6,400 THOUSAND IN FY 1990 TO COMPLETE THE DORMITORY. WE ARE NOW AT THE 65% ARCHITECT AND ENGINEERING DESIGN STAGE, i.e., THE ARCHITECTURAL AND ENGINEERING FIRM HAS COMPLETED PRELIMINARY DESIGN DRAWINGS FOR THE DORMITORY; OBTAINED CENTER ENGINEERING AND MANAGEMENT STAFF'S COMMENTS ON THE PRELIMINARY DRAWINGS; AND IS NOW PREPARING DETAILED DESIGN DRAWINGS AND SPECIFICATIONS FOR THE CENTER'S REVIEW. IT IS ANTICIPATED THAT CONSTRUCTION ON THIS SECOND NEW 228 BED DORMITORY WILL BEGIN IN MID 1991, WITH AN ESTIMATED COMPLETION DATE IN MID 1992. WHEN COMPLETED THE CENTER WILL BE ABLE TO HOUSE 1,664 STUDENTS ON CENTER.

NOW MR. CHAIRMAN, IF I MAY, I WOULD LIKE TO PROCEED WITH THE DISCUSSION OF OTHER ASPECTS OF THE MASTER PLAN. YOU WILL RECALL THAT IN ITS FY 1988 APPROPRIATIONS, THE CENTER WAS AUTHORIZED

$200 THOUSAND TO BE USED FOR THE DEVELOPMENT OF A REVISED FACILITIES MASTER PLAN. THE MASTER PLAN, PRESENTED TO CONGRESS LAST YEAR, PROVIDES A BASIS FOR THE EFFICIENT AND ORDERLY DEVELOPMENT OF THE CENTER'S LAND AND FACILITIES RESOURCES. IT IS A COMPREHENSIVE BLUEPRINT TO GUIDE THE IMMEDIATE AND FUTURE EXPANSION OF THE CENTER SO THAT IT CAN MORE EFFECTIVELY SUPPORT THE PRESENT TRAINING WORKLOAD AS WELL AS THE WORKLOAD PROJECTED FOR THE FUTURE. THE PLAN REQUESTS A TOTAL OF $86,010 THOUSAND: $82,000 THOUSAND FOR GLYNCO; $3,000 THOUSAND FOR ARTESIA; AND $1,010 THOUSAND FOR MARANA. THROUGH FY 1990, CONGRESS HAS APPROPRIATED $21,520 THOUSAND OR, ABOUT 25% OF THE FUNDS REQUESTED FOR THIS ACTIVITY. IF THE FY 1991 REQUEST IS APPROVED, WE WILL HAVE $36,475 THOUSAND OR 42% OF THE FUNDS NEEDED TO FULLY IMPLEMENT THE MASTER PLAN.

THE MASTER PLAN IDENTIFIES THREE PHASES OF CONSTRUCTION. THE FIRST PHASE IS DESIGNED ESSENTIALLY TO PROVIDE THE TRAINING AND SUPPORT CAPACITY TO HANDLE OUR PRESENT AND NEAR TERM WORKLOAD, ELIMINATING THE NEED FOR THE TEMPORARY BUILDINGS AND MEASURES WE HAVE ADOPTED TO MEET THESE NEEDS WHICH I OUTLINED EARLIER. OF THE $21,520 THOUSAND ALREADY APPROPRIATED BY CONGRESS FOR PHASE I MASTER PLAN IMPROVEMENTS, $20,595 THOUSAND IS FOR GLYNCO PROJECTS; $625 THOUSAND IS FOR ARTESIA PROJECTS; AND $300 THOUSAND IS FOR MARANA PROJECTS. GLYNCO PROJECTS FUNDED BY THESE APPROPRIATIONS INCLUDE: CONSOLIDATION OF THE PHYSICAL TRAINING COMPLEX; DRIVER TRAINING EXPANSION; CAFETERIA EXPANSION; A DORMITORY (DISCUSSED

EARLIER); AND RIFLE RANGE. ARTESIA PROJECTS FUNDED INCLUDE: A PHYSICAL TRAINING FACILITY; DRIVER/FIREARMS FACILITY; AND FIREARMS RANGES. DRIVER TRAINING RANGES AND PRACTICAL EXERCISE AREAS ARE ALSO FUNDED FOR MARANA.

THE CENTER'S FY 1991 ACI&RE REQUEST IN THE AMOUNT OF $18,735 THOUSAND WILL PROVIDE THE NECESSARY RESOURCES TO MAINTAIN OUR PRESENT FACILITIES, COMPLETE PHASE I OF THE MASTER PLAN, AND IMPLEMENT SOME OF THE PROJECTS IN PHASE II OF THE PLAN. PHASE I PROJECTS THAT WILL BE FUNDED IF OUR FY 1991 REQUEST IS APPROVED INCLUDE, AT GLYNCO: EXPANSION OF THE PHYSICAL TRAINING COMPLEX; ROAD IMPROVEMENTS AND BUS SHELTERS; RENOVATION OF THE BUILDING USED NOW AS A TEMPORARY DINING FACILITY INTO OFFICE SPACE; STUDENT CENTER PHASE I; AND A VEHICLE FUELING/COVERED AREA. PHASE I ARTESIA PROJECTS THAT WOULD BE FUNDED INCLUDE: CONSTRUCTION OF PRACTICAL EXERCISE AREAS; RECREATION AREAS; WALKWAYS; AND ARCHITECT/ENGINEERING SERVICES.

PROJECTS IN PHASE II THAT WOULD BE FUNDED INCLUDE: CONSTRUCTION OF A CLASSROOM BUILDING; AN INFORMATION SYSTEMS COMPUTER COMPLEX; RELOCATION OF THE GRAPHICS/MEDIA CENTER; RENOVATION OF THE PRESENT GRAPHICS/MEDIA CENTER INTO OFFICES; COMPUTER TRAINING FACILITY RENOVATION; AND PHASE II OF THE STUDENT CENTER. ALL OF THESE PROJECTS ARE FOR GLYNCO.

MR. CHAIRMAN, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO PERSONALLY THANK YOU AND THE REST OF THE SUBCOMMITTEE MEMBERS FOR THE SUPPORT YOU'VE GIVEN THE CENTER IN ITS MASTER PLAN DEVELOPMENT AND IMPLEMENTATION. WE ARE PLEASED AND GRATEFUL THAT CONGRESS HAS SEEN FIT TO APPROPRIATE THE FUNDS NECESSARY TO ENSURE THAT OUR FACILITIES CAN KEEP PACE WITH THE TRAINING NEEDS OF OUR PARTICIPATING AGENCIES. ONLY BY DOING SO CAN WE ENSURE THE PRESERVATION OF THIS IMPORTANT CONCEPT OF CONSOLIDATED TRAINING.

I ALSO WANT YOU TO KNOW THAT EVERY POSSIBLE ACTION IS BEING TAKEN TO ENSURE THE MONIES ARE BEING WELL SPENT. THE CENTER IS CONSULTING CLOSELY WITH ITS PARTICIPATING ORGANIZATIONS SO THAT THE DESIGN FEATURES OF EACH PROJECT WILL MEET CURRENT AND FUTURE NEEDS. THIS CLOSE CONSULTATION HAS STRETCHED OUT THE TIME IT TAKES TO DESIGN AND CONSTRUCT FACILITIES; HOWEVER, WE FEEL THE TIME AND EFFORT IS WELL SPENT BECAUSE IT WILL ENSURE THAT FUNDS ARE EFFICIENTLY AND WISELY USED.

I AM PLEASED TO SAY THAT APPROXIMATELY $20,100 THOUSAND OF THE $21,500 THOUSAND IN PROJECTS ALREADY FUNDED BY CONGRESS ARE NOW AT, OR BEYOND, THE 35% ARCHITECT AND ENGINEERING DESIGN PHASE. THE REMAINING $1,400 THOUSAND IN PROJECTS ARE IN THE CONCEPTUAL DESIGN AND DEVELOPMENT STAGE AWAITING ATTENTION BY AN ARCHITECTURAL AND ENGINEERING FIRM.

WE WILL BE WORKING WITH THE TREASURY DEPARTMENT AND THE OFFICE OF MANAGEMENT AND BUDGET TO DETERMINE THE BEST WAY IN WHICH TO DEAL WITH ADDITIONAL FUNDING REQUIREMENTS FOR THE REMAINING PHASE II AS WELL AS PHASE III REQUIREMENTS OF THE PLAN.

IN THIS REGARD, I WANT TO STRESS THAT THE MASTER PLAN REPRESENTED OUR BEST ESTIMATES OF OUR NEEDS AT THE TIME IT WAS DEVELOPED. OBVIOUSLY CHANGING EVENTS MAY DICTATE MODIFICATIONS TO THE VARIOUS PROJECTS OUTLINED IN THE PLAN AND APPROVED BY THE ADMINISTRATION AND THE CONGRESS. AS WE IDENTIFY THE CHANGES, I WILL KEEP THIS COMMITTEE INFORMED AND, WHERE NECESSARY, SEEK YOUR CONCURRENCE.

ARTESIA OPERATIONS

PURCHASE OF THE ARTESIA FACILITY WAS COMPLETED DURING FY 1989. THE FACILITY WAS DEDICATED AND THE FIRST TWO CLASSES COMPLETED TRAINING AT ARTESIA IN OCTOBER 1989.

THE ARTESIA FACILITY HAS A 150-BED DORMITORY AND A DINING HALL WITH SEATING FOR 265 PERSONS AND CAN SERVE 400 PERSONS PER MEAL. THERE ARE A TOTAL OF FOUR CLASSROOMS WHICH WILL ACCOMMODATE UP TO 120 STUDENTS. ADDITIONAL CLASSROOM SPACE IS BEING RENOVATED, AND WHEN COMPLETED, WILL INCREASE THE CLASSROOM SEATING CAPACITY TO APPROXIMATELY 400 PERSONS. ARTESIA WILL PRIMARILY ACCOMMODATE

ADVANCED TRAINING PROGRAMS FOR STUDENTS POSTED IN THE WESTERN UNITED STATES. IT WILL ALSO ACCOMMODATE BASIC TRAINING THAT CANNOT BE DONE AT GLYNCO BECAUSE OF SPACE LIMITATIONS.

DURING FY 1990, THE CENTER EXPECTS TO TRAIN APPROXIMATELY 702 STUDENTS AT ARTESIA. IN FY 1991 THE CENTER PROJECTS THAT 2,920 STUDENTS WILL BE TRAINED THERE.

THE IMMIGRATION AND NATURALIZATION SERVICE IS THE PRINCIPAL AGENCY COMMITTED TO USE ARTESIA FOR ADVANCED TRAINING TO DATE. HOWEVER, SEVERAL OTHER USERS THAT WE HAVE IDENTIFIED INCLUDE THE DEPARTMENT OF STATE, THE U.S. CUSTOMS SERVICE, THE FEDERAL AVIATION ADMINISTRATION, AND THE U.S. FOREST SERVICE.

CURRENTLY, THE CENTER IS UTILIZING INTERIM FIREARMS AND DRIVER TRAINING RANGES AT ARTESIA. AS I MENTIONED IN TESTIMONY LAST YEAR, THE CENTER IS CONSIDERING ACQUIRING FROM THE BUREAU OF LAND MANAGEMENT A NINE SQUARE MILE PIECE OF LAND IN CLOSE PROXIMITY TO ARTESIA WHICH IS SUITABLE FOR CONSTRUCTION OF PERMANENT FIREARMS AND DRIVER TRAINING RANGES. A DECISION ON THE FINAL SITE WILL DEPEND ON ENVIRONMENTAL ISSUES, OUR AGENCIES' TRAINING NEEDS AND COST CONSIDERATIONS.

IN FY 1990, CONGRESS APPROPRIATED $1,150 THOUSAND FOR PLANT OPERATIONS AT THE CENTER-OWNED ARTESIA FACILITY. OUR FY 1991 BUDGET REQUEST INCLUDES AN INCREASE OF $225 THOUSAND OVER THE FY 1990 LEVEL FOR ARTESIA PLANT OPERATIONS. THE ADDITIONAL FUNDS ARE NECESSARY TO SUPPORT THE INCREASING WORKLOAD AT ARTESIA IN FY 1991. PLANT OPERATIONS INCLUDE: TELEPHONE SERVICE, LOGISTICAL CONTRACTS, UTILITIES, MATERIAL/SUPPLIES, AND EQUIPMENT.

GLYNCO/ARTESIA MAINTENANCE

AS YOU KNOW, THE GOVERNMENT OWNED FACILITIES OF THE FEDERAL LAW ENFORCEMENT TRAINING CENTER ARE LOCATED ON 1,500 ACRES OF WHAT WAS FORMERLY A NAVAL AIR STATION AT GLYNCO, GEORGIA AND 220 ACRES OF THE FORMER ARTESIA CHRISTIAN COLLEGE AT ARTESIA, NEW MEXICO. THE ESTIMATED REPLACEMENT VALUE FOR BOTH GLYNCO AND THE ARTESIA SATELLITE IS IN EXCESS OF $127 MILLION. OVER THE PAST FOURTEEN YEARS AT GLYNCO, AND RECENTLY AT ARTESIA, MANY OF THE EXISTING BUILDINGS HAVE BEEN RENOVATED AND MODIFIED TO ACCOMMODATE VARIOUS TRAINING AND SUPPORT ACTIVITIES. ADDITIONALLY, THE DYNAMIC TRAINING REQUIREMENTS OF FEDERAL LAW ENFORCEMENT NECESSITATE NOT ONLY CONTINUAL MAINTENANCE AND REPAIR, BUT REGULAR MODIFICATIONS TO RESPOND TO OUR AGENCIES' UNANTICIPATED TRAINING NEEDS. THE NEW ARTESIA TRAINING FACILITIES -- WHICH INCLUDE OFFICE, CLASSROOM,

DORMITORY, AND DINING SPACE -- HAVE ALSO PLACED ADDED DEMANDS ON THE CENTER'S MAINTENANCE RESOURCES. BY FY 1991, BOTH GLYNCO AND ARTESIA WILL REQUIRE THE SAME TYPE OF MAINTENANCE.

IN THE FY 1991 BUDGET REQUEST, THE CENTER IS SEEKING $3,780 THOUSAND IN NO YEAR FUNDS FOR MAINTENANCE OF FACILITIES AT BOTH GLYNCO AND ARTESIA. THIS IS A $300 THOUSAND INCREASE OVER THE FY 1990 LEVEL. THE ADDITIONAL FUNDS ARE NECESSARY TO SUPPORT THE ARTESIA FACILITY. BASED ON OUR EXPERIENCE AT GLYNCO, MAINTENANCE COSTS AVERAGE $2 PER SQUARE FOOT, AND ARTESIA ADDED AN ADDITIONAL 150,000 SQUARE FEET OF SPACE TO OUR TOTAL INVENTORY. THE FUNDS WILL BE USED TO COVER ITEMS SUCH AS REPLACING ROOFS, PAINTING INTERIOR AND EXTERIORS OF BUILDINGS, REPLACING SINGLE-PANE WINDOWS WITH ENERGY-EFFICIENT THERMAL-PANE WINDOWS, REPAIRING/REPLACING HEATING/AIR CONDITIONING/VENTILATION SYSTEMS, AND OTHER MAJOR MAINTENANCE NEEDS. THIS AMOUNT IS INCLUDED IN OUR ACI&RE ACCOUNT AND IS NECESSARY TO INSURE THE CONTINUED REPAIR AND MAINTENANCE NEEDED TO PROTECT THE GOVERNMENT'S INVESTMENT, TO PROVIDE A SAFE ENVIRONMENT FOR STUDENTS AND STAFF, AND TO REACT TO THE EVER CHANGING TRAINING NEEDS OF OUR AGENCIES.

17

MARANA OPERATIONS

IN RESPONSE TO A 1984 REQUEST FROM THE DEPARTMENT OF INTERIOR'S BUREAU OF INDIAN AFFAIRS (BIA) THAT THE CENTER MANAGE THE INDIAN POLICE ACADEMY, THE CENTER OPENED A LEASED SATELLITE FACILITY AT MARANA, ARIZONA, APPROXIMATELY 35 MILES NORTH OF TUCSON.

THE CENTER CONDUCTED THE FIRST 11-WEEK BASIC INDIAN TRAINING PROGRAM IN JANUARY, 1985. SINCE THAT TIME, TRAINING FOR BIA AND OTHER AGENCIES HAS BEEN CONDUCTED. THIS TRAINING IS ESSENTIALLY FOR THOSE STUDENTS WHO ARE POSTED IN THE WESTERN REGIONS OF THE UNITED STATES, BUT MARANA ALSO HAS BEEN UTILIZED FOR SOME OF THE OVERFLOW TRAINING THAT CANNOT BE ACCOMMODATED AT GLYNCO.

DURING FY 1989, A TOTAL OF 2,551 STUDENTS GRADUATED FROM THE MARANA FACILITY, REPRESENTING 5,260 STUDENT WEEKS OF TRAINING. THIS NUMBER INCLUDED 397 STUDENTS FROM THE BIA BASIC AND ADVANCED PROGRAMS AND 2,154 STUDENTS FROM OTHER AGENCY AND STATE AND LOCAL PROGRAMS. IN FY 1990, IT IS ANTICIPATED THAT 2,214 STUDENTS WILL ATTEND TRAINING AT MARANA, AND A PROJECTED 2,037 STUDENTS ARE ANTICIPATED FOR FY 1991.

NEGOTIATIONS FOR THE CENTER'S LEASE WITH THE EVERGREEN AIR PARK AT THE MARANA FACILITY WERE COMPLETED AND A NEW LEASE SIGNED ON JULY 20, 1989. THE NEW LEASE RUNS UNTIL SEPTEMBER 30, 1992 AND IS RENEWABLE ANNUALLY THEREAFTER FOR TWO ADDITIONAL YEARS AT THE GOVERNMENT'S OPTION.

FINANCIAL FRAUD INSTITUTE

THE CENTER'S FY 1991 REQUEST INCLUDES $1,001 THOUSAND INCREASE IN FUNDING FOR THE CONTINUED DEVELOPMENT OF THE FINANCIAL FRAUD INSTITUTE (FFI). THE INCREASED FUNDING REQUESTED WILL IMPROVE THE CENTER'S ABILITY TO PROVIDE ENHANCED TRAINING IN THE GROWING AND INCREASINGLY COMPLEX AREA OF FINANCIAL FRAUD.

THE FFI CONCEPT WAS APPROVED BY FLETC'S BOARD OF DIRECTORS ON APRIL 13, 1989. THE FFI'S GOAL IS TO SERVE AND SUPPORT ALL OCCUPATIONAL COMPONENTS INVOLVED IN THE FINANCIAL INVESTIGATIVE COMMUNITY, i.e., INVESTIGATORS, AUDITORS, ANALYSTS, PROSECUTORS, AND REGULATORY PERSONNEL DEVOTED TO THE DETECTION AND ELIMINATION OF FRAUD.

OUR PLANS ARE FOR THE FFI TO PLAY A LARGER AND MORE PROACTIVE ROLE IN IDENTIFYING AND MEETING THE TRAINING NEEDS OF THE FINANCIAL INVESTIGATIVE COMMUNITY. THIS WILL BE ACCOMPLISHED THROUGH LIAISON WITH VARIOUS ELEMENTS IN THE INVESTIGATIVE AND FINANCIAL

COMMUNITIES; THE USE OF SPECIAL COLLOQUIES TO VERIFY TRAINING NEEDS; AND, BY TRAINING PERSONNEL ON THE MOST ADVANCED EQUIPMENT, THUS PROVIDING PERSONNEL WITH THE LATEST INVESTIGATIVE TECHNIQUES AND SPECIALTY SKILLS NEEDED TO INSURE THAT INVESTIGATORS ARE PREPARED TO MEET THE DEMANDS OF CRIMINAL INVESTIGATIONS INVOLVING THE DYNAMIC FINANCIAL ENVIRONMENT.

THE FFI WILL SERVE AS A REPOSITORY FOR RESEARCH METHODS, LESSON PLANS, CASE STUDIES, LAW ENFORCEMENT APPLICATIONS, SOFTWARE, COMPUTER BASED TRAINING COURSEWARE, PRACTICAL EXERCISES AND VIDEO TAPE TRAINING AIDS. UTILIZING THESE RESOURCES AND STATE OF THE ART EQUIPMENT, THE FFI WILL BE ABLE TO OFFER STATE OF THE ART TRAINING IN AREAS SUCH AS: MONEY LAUNDERING, ASSET REMOVAL AND FORFEITURE, LINK ANALYSIS, AND EXECUTION OF A SEARCH WARRANT IN AN AUTOMATED ENVIRONMENT.

BESIDES THE TRADITIONAL COST BENEFITS DERIVED FROM A CENTRALIZED TRAINING FACILITY, THE FFI WILL HAVE THE ABILITY TO REACT TIMELY TO FUTURE FINANCIAL CRIME TRAINING NEEDS WITH SUBJECT MATTER EXPERTS WORKING IN AN EFFICIENT, CENTRALIZED ENVIRONMENT.

PROGRAMS CURRENTLY OFFERED BY THE FFI INCLUDE: CRIMINAL INVESTIGATIONS IN AN AUTOMATED ENVIRONMENT; WHITE COLLAR CRIME; BASIC MICRO-COMPUTER; ADVANCED MICRO-COMPUTER; AND INSPECTOR GENERAL BASIC. OTHER PROGRAMS WILL BE ADDED AS THE NEEDS ARE FURTHER DEFINED.

I ALSO WANT TO NOTE THAT THE STAFF OF GLYNCO'S FFI ARE IN CLOSE LIAISON WITH THE TREASURY DEPARTMENT'S FINANCIAL CRIME ENFORCEMENT NETWORK (FINCEN). INDEED, THE FLETC WILL SERVE AS THE TRAINING ARM OF FINCEN.

EQUIPMENT

THE FY 1991 BUDGET REQUEST FOR EQUIPMENT IS $2,545 THOUSAND. THIS REPRESENTS AN INCREASE OF $214 THOUSAND OVER THE FY 1990 LEVEL. NEW EQUIPMENT IS NEEDED TO SUPPORT THE INCREASE IN THE NUMBER OF CLASSES WHICH THE CENTER IS EXPERIENCING. EARLIER REPLACEMENT SCHEDULES ARE ALSO REQUIRED FOR EXISTING EQUIPMENT BECAUSE OF THE HEAVIER DAILY USE BEING EXPERIENCED. THE FUNDS REQUESTED WOULD PROVIDE NEW, AS WELL AS, REPLACEMENT TRAINING EQUIPMENT INCLUDING WEAPONS, VEHICLES, LAB EQUIPMENT, AUDIO/VIDEO SUPPORT, AND ADP SYSTEMS. ADDITIONALLY, THE CENTER AT GLYNCO IS FUNCTIONING WITH AN OUTDATED TELEPHONE SYSTEM. APPROXIMATELY $1,000 THOUSAND OF THESE FUNDS WILL BE USED TO PURCHASE A NEW, MODERN TELEPHONE SWITCHING CAPABILITY TO ALLOW FULL UTILIZATION

OF OUR ADP ENHANCEMENTS AS WELL AS PROVIDE EXPANDED SERVICE TO MEET OUR RECENT GROWTH. THE $214 THOUSAND INCREASE IS REQUIRED TO SUPPORT THE FFI AND ARTESIA PLANT OPERATIONS AND IS INCLUDED IN THOSE INITIATIVES DISCUSSED EARLIER.

NATIONAL CENTER FOR STATE AND LOCAL TRAINING

GLYNCO'S NATIONAL CENTER FOR STATE AND LOCAL TRAINING WAS ESTABLISHED BY THE PRESIDENT IN 1982 TO PROVIDE TRAINING FOR STATE AND LOCAL LAW ENFORCEMENT AGENCIES. SINCE ITS INCEPTION, THE NATIONAL CENTER HAS RECEIVED BROAD SUPPORT FROM THE FEDERAL, STATE AND LOCAL LAW ENFORCEMENT COMMUNITIES WHICH PROVIDE SUBJECT MATTER EXPERTS FOR COURSE AND PROGRAM DEVELOPMENT AS WELL AS INSTRUCTIONAL SERVICES.

DURING FY 1989, THERE WERE 3,280 STATE AND LOCAL STUDENTS TRAINED THROUGH THE NATIONAL CENTER IN 30 SELECTED ADVANCED TRAINING PROGRAMS. THIS BUDGET REQUEST IN THE AMOUNT OF $1,289 THOUSAND, AN INCREASE OF $40 THOUSAND OVER THE FY 1990 LEVEL, WILL PROVIDE FOR COURSE AND PROGRAM DEVELOPMENT AND ADMINISTRATIVE SUPPORT TO PERMIT TRAINING OF 3,807 STUDENTS. THE INCREASE IN FUNDING IS NECESSARY TO MAINTAIN CURRENT LEVELS. CONSISTENT WITH THE SHARED FUNDING CONCEPT THAT ALWAYS HAS BEEN PART OF OUR NATIONAL CENTER,

STATE AND LOCAL AGENCIES CONTINUE TO BE RESPONSIBLE FOR ALL EXPENSES RELATED TO STUDENT SALARIES, TRAVEL, FOOD, AND LODGING ASSOCIATED WITH THIS TRAINING.

BECAUSE OF THE SUCCESS OF THE NATIONAL CENTER, REQUESTS FOR TRAINING SOMETIMES EXCEEDS THE SPACE AVAILABLE AT GLYNCO. THEREFORE, MANY OF THESE PROGRAMS ARE BEING CONDUCTED ON AN EXPORT BASIS AT SITES ACROSS THE COUNTRY INCLUDING ARTESIA AND MARANA. INDEED, THE NUMBER OF STATE AND LOCAL STUDENTS TRAINED ANNUALLY AT GLYNCO HAS REMAINED BELOW 1,400 FOR THE LAST SEVERAL YEARS.

I'D ALSO LIKE TO MENTION THAT WE ARE EXPLORING THE FEASIBILITY OF USING THE NEWLY CREATED COMMERCIAL LAW ENFORCEMENT TELEVISION NETWORK (LETN) BASED IN DALLAS, TEXAS TO EXPAND THE MEDIUM WE USE TO DELIVER SOME OF OUR STATE AND LOCAL TRAINING. WE CONTINUE TO COOPERATE WITH THE FBI AND KANSAS CITY, MISSOURI POLICE DEPARTMENT IN USING THE LETN WHICH THEY SPONSOR.

DURING THE PAST YEAR, THE NATIONAL CENTER FOR STATE AND LOCAL TRAINING HAS BEEN WORKING ON SEVERAL NEW INITIATIVES. ONE RECENTLY DEVELOPED PROGRAM BEING OFFERED IS THE FIRST RESPONSE ANTITERRORISM TRAINING PROGRAM. THIS IS A TRAIN-THE-TRAINER PROGRAM DESIGNED FOR QUALIFIED PERSONNEL WITH RESPONSIBILITIES FOR PROVIDING

TRAINING IN TERRORIST CRISIS RESPONSE. THE PROGRAM WAS DEVELOPED IN CONJUNCTION WITH THE FBI AND TRAINING IS PROVIDED BY BOTH FBI AND FLETC INSTRUCTORS.

CURRENTLY, A BOATING ACCIDENT INVESTIGATION TRAINING PROGRAM IS IN THE EARLY STAGES OF DEVELOPMENT. THE CENTER COMPLETED A SURVEY THAT IDENTIFIED A NEED FOR A PROGRAM IN THIS AREA DURING 1989. A CURRICULUM DEVELOPMENT CONFERENCE IS NOW PLANNED FOR APRIL 1990. DURING THE CONFERENCE PROGRAM REQUIREMENTS WILL BE DETERMINED AND SPECIFIC ASSIGNMENTS FOR FURTHER DEVELOPMENT OF THE PROGRAM WILL BE MADE.

IN 1986 THE CENTER WAS ASKED TO PARTICIPATE IN THE OPERATION ALLIANCE INITIATIVE. THIS PROGRAM IS A COOPERATIVE EFFORT AMONG FEDERAL, STATE, AND LOCAL LAW ENFORCEMENT AGENCIES TO INTERDICT ILLEGAL DRUGS AS THEY COME ACROSS THE MEXICAN BORDER BY MEANS OF HIGHWAYS, AIRWAYS, WATERWAYS, AND RAILWAY SYSTEMS. IT INVOLVES TRAINING IN INTERDICTION METHODS, AS WELL AS SHARING OF INFORMATION DATA BASES AMONG LAW ENFORCEMENT AGENCIES.

THE CENTER'S ROLE IN OPERATION ALLIANCE HAS BEEN TO ASSIST IN SATISFYING THE OVERALL TRAINING NEEDS FOR PARTICIPATING FEDERAL, STATE, AND LOCAL LAW ENFORCEMENT AGENCIES. TO THIS END, THE CENTER HAS DEVELOPED VIDEO TRAINING TAPES COVERING TOPICS THAT INCLUDE: OPERATION ALLIANCE OVERVIEW; CONCEALMENT METHODS - LAND

CONVEYANCES; CROSS DESIGNATION OF FEDERAL AUTHORITY; CONCEALMENT METHODS - MARINE SMUGGLING DETECTION; AND HAZARDOUS DEVICES IN CONTRABAND CONCEALMENT. DURING FY 1989 THE CENTER COMPLETED AND ADDED THE FOLLOWING TAPES TO THE OPERATION ALLIANCE VIDEO LIBRARY: ASSET FORFEITURE AND SHARING; UTILIZATION OF FEDERAL FIREARMS LAWS AGAINST NARCOTICS TRAFFICKERS; COMMUNICATIONS; AND MONEY LAUNDERING.

MARITIME ANTITERRORISM TRAINING

IN A CONFERENCE REPORT WHICH ACCOMPANIED THE FY 1988 APPROPRIATIONS, CONGRESS DIRECTED THE CENTER TO ASSESS THE NEED FOR MARITIME ANTITERRORISM AND SEAPORT SECURITY TRAINING. IN JUNE, 1988, A MEETING OF A SMALL GROUP OF EXPERTS IN SEAPORT SECURITY WAS CONVENED AT GLYNCO TO DISCUSS THE POSSIBLE NEED FOR A MARITIME ANTITERRORISM AND SEAPORT SECURITY TRAINING PROGRAM (MATSSTP). SUBSEQUENTLY, THE CENTER ADMINISTERED A NEEDS SURVEY WHICH INDICATED THAT THERE WAS SUFFICIENT INTEREST TO WARRANT THE DEVELOPMENT OF SUCH A PROGRAM.

DEVELOPMENT AND DESIGN OF THE PROGRAM WAS COMPLETED IN FY 1989. THE RESULTING EIGHT-DAY SEAPORT SECURITY/ANTITERRORISM TRAINING PROGRAM ADDRESSES THE FOLLOWING ISSUES: THREAT AWARENESS AND TACTICS; SECURITY AND CONTINGENCY PLANNING; PORT THREAT ASSESSMENT AND PROTECTIVE MEASURES; PORT SURVEYS AND INSPECTIONS;

INTERNATIONAL MARITIME ORGANIZATION SECURITY MEASURES; BOMBS AND EXPLOSIVE DEVICES; SECURITY SYSTEMS AND HARDWARE; SCREENING AND SEARCH TECHNIQUES; CRISIS MANAGEMENT; AND EMERGENCY PLANNING.

WE PROJECT THAT 120 STUDENTS WILL ATTEND THE SEAPORT SECURITY/ ANTITERRORISM TRAINING PROGRAM IN BOTH FY 1990 AND FY 1991.

ANTITERRORISM AND PHYSICAL SECURITY TRAINING

AS I MENTIONED LAST YEAR, THE CENTER HAS DEVELOPED SEVERAL ANTITERRORISM TRAINING PROGRAMS. UP TO 28 HOURS OF ANTITERRORISM TRAINING HAS BEEN INCORPORATED INTO EXISTING BASIC PROGRAMS. IN ADDITION, FOUR CENTER ADVANCED PROGRAMS HAVE BEEN DEVELOPED TO ADDRESS THIS PROBLEM.

THE ANTITERRORISM MANAGEMENT TRAINING PROGRAM, WHICH IS THREE DAYS LONG, STRESSES THE PREVENTION ASPECTS OF ANTITERRORISM AND INCLUDES SOURCES OF CRIMINAL INFORMATION/INTELLIGENCE, CRIME PREVENTION, PHYSICAL SECURITY, PERSONAL PROTECTION, OPERATIONS SECURITY, AND MEDIA RELATIONS.

THE THREE DAY ANTITERRORISM CONTINGENCY PLANNING TRAINING PROGRAM FOCUSES ON THE NEEDS OF AGENCIES WHO ARE THE FIRST TO RESPOND TO A TERRORIST INCIDENT. GUEST INSTRUCTORS FROM THE FBI ASSIST IN THIS PROGRAM WITH INSTRUCTION ON THAT AGENCY'S

RESPONSIBILITY DURING TERRORISM INCIDENTS, CRISIS MANAGEMENT, AND INTERAGENCY COOPERATION. IN ADDITION, FBI SWAT TEAMS ASSIST WITH A DEMONSTRATION OF PROPER PROCEDURES FOR TRANSFERRING CONTROL FROM THE FIRST RESPONDING AGENCY TO THE SWAT TEAM DURING A HOSTAGE BARRICADE TERRORIST INCIDENT.

THE PHYSICAL SECURITY MANAGERS TRAINING PROGRAM, THREE DAYS IN LENGTH, WAS DESIGNED TO PREPARE THE INDIVIDUAL RESPONSIBLE FOR MANAGING THE PHYSICAL SECURITY EFFORT OF AN ORGANIZATION.

THE FOURTH ANTITERRORISM TRAINING PROGRAM DEVELOPED BY THE CENTER IS THE EIGHT DAY ADVANCED PHYSICAL SECURITY TRAINING PROGRAM. THE PROGRAM IS DESIGNED TO PROVIDE THE STUDENT WITH AN IN-DEPTH KNOWLEDGE OF PHYSICAL SECURITY PROCEDURES AND EQUIPMENT.

IN FY 1988 THE CENTER COMPLETED THE CONSTRUCTION OF A PHYSICAL SECURITY/ANTITERRORISM TRAINING FACILITY. THIS IS A MODEL PHYSICAL SECURITY SITE THAT ALLOWS US TO PROVIDE SPECIALIZED TRAINING ON STATE OF THE ART EQUIPMENT AND PROCEDURES TO BE USED FOR INTRUSION DETECTION AND OTHER SECURITY AND ANTITERRORISM TOPICS.

ANOTHER INITIATIVE BEGUN BY THE CENTER IN THE AREA OF ANTITERRORISM IS A SURVEY TO DETERMINE IF A NEED EXISTS FOR A CRIMINAL/TERRORIST INFORMATION ANALYST'S TRAINING PROGRAM. THE RESULTS OF THE SURVEY SUGGEST THAT THERE IS A NEED FOR THIS TRAINING AND THE

CENTER WILL CONTINUE TO PURSUE ITS DEVELOPMENT. IT IS ANTICIPATED THAT THIS WOULD DEVELOP INTO A ONE OR TWO WEEK PROGRAM COVERING TOPICS SUCH AS INTRODUCTION TO THE INTELLIGENCE AND ANALYSIS PROCESS, LINK ANALYSIS TECHNIQUES, COMMUNICATION SKILLS, SOURCES OF INFORMATION AND INTELLIGENCE, CHARTING TECHNIQUES, COMPUTER ASSISTANCE ANALYSIS, INTELLIGENCE REPORT WRITING, AND ANALYTICAL TECHNIQUES.

GOODWILL GAMES ANTITERRORISM TRAINING

AT THEIR REQUEST, THE CENTER HELD DISCUSSIONS WITH THE DEPARTMENT OF DEFENSE (DOD) DURING JUNE AND JULY CONCERNING EXPORTABLE TRAINING THE CENTER COULD PROVIDE TO SECURITY FORCES OF THE GOODWILL GAMES IN SEATTLE, WASHINGTON. AS A RESULT OF THESE CONTACTS, THE CENTER DEVELOPED A PROPOSED TRAINING PLAN AND MADE A PRESENTATION TO THE SEATTLE POLICE DEPARTMENT IN OCTOBER 1989. THE PROPOSAL CALLED FOR THE CENTER TO CONDUCT TWO PROGRAMS; A VERSION OF THE PHYSICAL SECURITY MANAGERS TRAINING PROGRAM SPECIFICALLY TAILORED TO MEET THE UNIQUE REQUIREMENTS OF THE GOODWILL GAMES FOR EVENT SITE SECURITY SUPERVISORS AND THE FIRST RESPONSE TRAINING PROGRAM FOR SECURITY TRAINING PERSONNEL. THE SEATTLE POLICE DEPARTMENT ACCEPTED THE CENTER'S PROPOSAL AND REQUESTED AND RECEIVED FUNDING FOR THE TRAINING FROM THE DOD.

THE PHYSICAL SECURITY MANAGERS TRAINING PROGRAM WAS PROVIDED TO 32 GOODWILL GAME EVENT SECURITY SUPERVISORS BETWEEN NOVEMBER 25 AND DECEMBER 1, 1989. THE FIRST RESPONSE TRAINING PROGRAM WILL BE PROVIDED TO APPROXIMATELY 35 SECURITY TRAINING PERSONNEL FROM THE SPOKANE, TACOMA, KINGS COUNTY, AND SEATTLE POLICE DEPARTMENTS BEGINNING APRIL 9, 1990.

CLOSING

MR. CHAIRMAN, IN CLOSING, I WOULD LIKE TO SAY THAT I REMAIN STRONGLY COMMITTED TO THE EFFORT OF THE ADMINISTRATION AND THIS SUBCOMMITTEE TO CONTROL GOVERNMENT EXPENDITURES. AT THE SAME TIME, I AM COMMITTED TO THE MISSION OF THE CENTER TO PROVIDE HIGH QUALITY TRAINING AT THE LOWEST COST POSSIBLE. SUBSTANTIAL SAVINGS ARE BEING REALIZED THROUGH THE OPERATION OF THE CENTER AS A CONSOLIDATED TRAINING FACILITY, AND I RECOGNIZE THAT OUR SUCCESS IS MADE POSSIBLE, IN LARGE PART, THROUGH THIS COMMITTEE'S SUPPORT AND GUIDANCE. I LOOK FORWARD TO YOUR CONTINUED SUPPORT AS WE STRIVE TO REMAIN A CENTER OF EXCELLENCE.

MY COLLEAGUES AND I ARE AVAILABLE TO ANSWER ANY QUESTIONS YOU MAY HAVE CONCERNING THIS APPROPRIATION REQUEST.

Mr. RINKEVICH. Fine.
Mr. ROYBAL. Will you please proceed?

INTRODUCTION OF WITNESSES

Mr. RINKEVICH. Let me introduce first again Joe Miller, who is my Deputy, on my left. Next to him is Bill Kelso, who is our Assistant Director for Administration. And behind me is Dennis Staton, who is our Comptroller, and John Dooher, who is our Assistant Director here in our Washington office.

Mr. Chairman, our facility trains virtually all the Federal law enforcement personnel, except for the FBI, DEA, and the postal service. You also know that the center has recently acquired a training facility in Artesia and still maintains a training facility in Marana, Arizona. Glynco and Artesia, are government owned and Marana is leased. We continue to be pleased with the success that consolidated training is realizing.

WORKLOAD

The center remains a very cost-efficient organization. The quality and standards of training that are provided is a significant contribution to Federal law enforcement. One of the things that the center is particularly proud of is that during the last several years we have been able to maintain our quality in the face of a fairly significant workload growth without a denigration of quality.

The workload does continue to grow. Our basic students have increased in fiscal year 1991. There is a slight decrease in our basic student population than was projected, but that is offset by an increase in the advanced training. The total students increased from 1990 to 1991, but the mix of those students is beginning to change. That change is an increase in advanced training and a slight decrease in the amount of basic training that the agencies are asking the center to do.

FISCAL YEAR 1990 BUDGET

Our request before you is for $36,727,000 in salaries and expenses $18,735,000 for our acquisition, construction, improvements, and related expenses account. The center anticipates about $15,908,000 in reimbursables from the agencies that we will provide training for during Fiscal Year 1991. The total budget will be about $71,370,000. This represents about a 10 percent increase over Fiscal Year 1990 funding as appropriated by the Congress.

In conclusion, I want to state again that the center is very proud to be able to maintain the quality of the training at the Center, in spite of the workload growth. The Center appreciates the support that has been received not only from Treasury and the Office of Management and Budget, but also from this Committee.

FACILITIES MASTER PLAN

I know that you are vitally interested in the master plan. This is an important activity for us. The support of this Committee, yourself, and many others, Congressman Skeen, has brought us to the point where we are about 50 percent funded for that master plan if you approve this request that is before you today.

With that, let me turn to any questions, Mr. Chairman, that you or Congressman Skeen may have.

Mr. ROYBAL. Thank you very much, Mr. Rinkevich. We would like to ask questions on both the salaries and expense account, and also the acquisition, construction, improvements, and related expenses. We will just go back and forth on both.

I would be interested first of all in finding out more about the master plan. It has been of great interest, but for the record we would like to know what the total estimated cost of the plan is going to be.

MASTER PLAN COSTS

Mr. RINKEVICH. As you will recall, the master plan is divided amongst three facilities: Glynco, Artesia, and Marana. The total cost for the master plan is $86 million. $82 million of that is planned for the Glynco facility, and I believe the balance, $3 million, is for Artesia, and $1 million is for Marana.

As I eluded to earlier, if this budget request is approved with the master plan funding in it, we will have, with prior years approval, about 47 or 48 percent of the total master plan projects for all three facilities. All of the projects in our phase one of the master plan are projects designed to reduce the center's reliance on temporary facilities. Projects in phase two of the master plan are designed to begin to increase the center's capacity for the projected workload. And phase three is designed to finalize that.

This request before you, plus the prior years funding, would give the center funding for all of phase one, which means that FLETC would be able to eliminate the temporary facilities that the center has utilized for the last two or three years. Also, it would fund about 50 percent of the phase two. That is about halfway to getting us into a posture where we can deal with the projected growth.

SINGLE FACILITY CONCEPT

Mr. ROYBAL. I would like to ask this question. I ask it as a layperson, but I remember very well that years ago we were talking about one facility so that all law enforcement training would take place at that one facility. Now we are talking about Glynco, one in Arizona and one in Artesia will be the other. And then we find that several agencies want their own. What happened to that original plan with one agency and one facility to take care of all law enforcement training?

Mr. RINKEVICH. Mr. Chairman, I think the essential feature of that original plan was that there would be one organization to take care of all of the Federal law enforcement training. The original founders of the center envisioned that this organization could be housed in one location. The growth anticipated at the Glynco, GA, Center has been realized, and some of the cost efficiencies that we have tried to establish, I think, have driven us to look for additional locations.

Mr. ROYBAL. Sure. But is it not more expensive to run three operations at one time than to run just one?

Mr. RINKEVICH. I think that is true, but I think without the three operations, we would be forcing the agencies to go to other,

even more expensive, locations for training. Also, they would provide their own training in facilities that are not properly designed for the type of training the Center provides. So they can now come to us, one organization responsible for accommodating all training.

The center can train a large number of them at Glynco, which is where most of training is done. I do not know if we can put a percentage figure on that or not, but clearly most of the training is done at Glynco. Most, if not all, of our basic training will continue to be done at Glynco. Mostly our western based agencies will use the facilities out west for advanced training.

Mr. ROYBAL. Sure. But when you have advanced training, for example, various other organizations want their own. And it seems to me that that is wasteful. Now, I was sold on the idea that we needed just one good, strong organization and that everyone would go to that particular locale. And now I found out that that is not happening, and that we are even disposing of forces of Glynco. Do you not like Glynco any more?

Mr. RINKEVICH. Oh, we dearly love Glynco.

PLANS FOR INCREASED USE OF GLYNCO

Mr. SKEEN. We do, too, Mr. Chairman.

Mr. RINKEVICH. Mr. Chairman, we have no intention of decreasing the amount of training at Glynco. In fact, the master plan will invest $82 million of the $86 million in Glynco. This site still is clearly the principle training entity for the Federal Law Enforcement Training Center. However, these other sites are needed by our agencies, otherwise their training will go begging. The alternative of allowing that training to be done in more costly places at a substandard level of quality is unacceptable.

Mr. ROYBAL. The arguments now for a diversified and divided operation are entirely different from the arguments that I heard years ago in favor of one locale. And you, Mr. Rinkevich, and your colleagues are the ones that are looking at the day-to-day operation in this facility. You know better than anybody else what should be done. Whatever I say does not make much difference anyway. The truth of the matter is that I think it is more expensive to do it by dividing the operation into various locales.

I think it might make some sense if I were the director, of one of the bureaus and I want my own training center. But only from that standpoint would it make any real difference insofar as I am concerned. That is an argument that we will explore right here. I do not know that it is going to be absolutely necessary for you to dispose of portions of Glynco. You will have to decide that. But if you are going to expand that operation and make it better, it seems to me that you do not give up what you already have because one bird in hand is worth more than three in the bush.

GLYNCO LAND USE

Mr. RINKEVICH. We do not intend and have no plans whatsoever, Mr. Chairman, to dispose of any property at Glynco. Indeed, the center is working now with the local officials in the Brunswick area to acquire additional property adjacent to the firearms train-

ing complex. This will enable the center to do even more sophisticated firearms training.

Mr. ROYBAL. All right. Then if you are not going to dispose of it, I am glad to hear that, because I was told that you——

Mr. RINKEVICH. No, sir.

Mr. ROYBAL [continuing]. We're contemplating disposing of some land. Let me ask this question.

Mr. RINKEVICH. Yes, sir.

Mr. ROYBAL. Are there portions of land adjacent to Glynco that you anticipate will be needed in the future?

Mr. RINKEVICH. Yes, indeed.

Mr. ROYBAL. Is that land available? And, if so, what is being done to acquire it?

ADDITIONAL NEEDED LAND

Mr. RINKEVICH. The land is available, and it is in the hands of the local county economic development authority. The center is negotiating with them right now in order to acquire that land. We have every reason to believe that with the cooperation of the Department of Health and Human Services, which has title to part of the land, and the General Services Administration, which has final decision-making authority over the acquisition, that the center will be successful in acquiring that piece of property.

Mr. ROYBAL. I am glad to hear that. Number one, we established the fact that the rumor that I heard has no foundation in fact; that you are not going to get rid of some of the land in Glynco. The truth of the matter is that you are looking at expansion, and that the possibilities of acquiring that property are excellent; that you do have a program for its use in the future.

In other words, we continue then in making Glynco the headquarters for the training of law enforcement personnel. Others may have a facility in which they give some kind of advanced training that is applicable only to their operation. Is that more or less a general good description of what the situation is?

AGENCY TRAINING NEEDS

Mr. RINKEVICH. All except the very last comment that you made, Mr. Chairman. The Center believes strongly that we can accommodate any of the agencies' advanced training at one of our present training facilities. I would not want to leave the record unclear. We would not support an agency doing advanced training separate from the Center.

Mr. ROYBAL. I am not saying that you are supporting it. What I am saying is that it is happening.

Mr. RINKEVICH. The only training that is not occurring at the Center, that I am aware occurs on a regular basis elsewhere is training that is done at either the Secret Service facility at Beltsville or at the FBI facility at Quantico where the DEA and the FBI train. All other training is provided to the agencies. There was interest by one of our agencies in acquiring the New Mexico facility originally and that drove in part the decision-making policy.

That situation was a real threat to the notion of consolidated training. Now that the Center owns Artesia that threat no longer exists.

Mr. ROYBAL. All right. I would like to go into another subject now. I would like to know what the current status of the new dormitory facility is. When do you expect it to be completed?

NEW DORMITORY

Mr. RINKEVICH. The new dorm, for which we are now working on the design, we estimate will be completed at this point in March of 1992. We are currently working on the architectural design. Bill, do you know what——

Mr. KELSO. We are awaiting the 65 percent drawings. They should be in within the next week or two.

Mr. RINKEVICH. This will be almost an exact copy of the dormitory that we had the privilege of having you join us for the dedication of, Mr. Chairman and Congressman Skeen. There will be some cosmetic differences, but it will be essentially a carbon copy of that dorm. It will be located, if you will recall, in the same general vicinity of the Gunnels Dorm.

Mr. ROYBAL. Now in addition to that, do you expect to have a new classroom building?

NEW CLASSROOM BUILDING

Mr. RINKEVICH. Yes, sir.

Mr. ROYBAL. The cost, I understand, will be in the neighborhood of $4.8 million. Is that a pretty good contractual figure, or are overruns expected in the building of that facility?

Mr. RINKEVICH. We do not expect overruns in the sense I think that you may be eluding to, Mr. Chairman. At this point that is a firm figure. However, I must tell you that as we get further into the architectural design of these master plan projects, the Center is confronting circumstances where costs are escalating. I do not anticipate that there is going to be a great escalation of costs, but the master plan document was a picture taken almost a year ago and based on estimates that were established then in good faith.

It is entirely possible as the Center goes through the actual bid and awarding of contracts that those dollars will be less or more, depending on the state of affairs at the time. At this point, the classroom building is slated for construction at $4.7 million, but when we actually receive bids, the cost could be a little less or a little more.

The Center has an excellent track record in managing construction projects to ensure that we stay within cost. The Center was well within cost for the Gunnels Dorm. The master plan that originally was the basis for the Center was well within cost. In fact, there was an excess of——

Mr. DOOHER. About $1.5 million.

Mr. RINKEVICH [continuing]. $1.5 million on the original master plan. We fully intend to replicate that good track record, but you know construction costs and what can happen in bidding processes.

Mr. ROYBAL. I hope that you can do that. Thank you, sir. Mr. Skeen?

Mr. SKEEN. Thank you, Mr. Chairman. Mr. Rinkevich, Mr. Dooher, and the gentlemen that are here today, I want to tell you it is a pleasure. It is kind of like visiting with my neighbors again. Let us go back to the concept about one facility and one organization. I am not taking issue with the Chairman. He has a little different view than I do. There are things that we find incompatible.

And I want to say that insofar as the idea of proliferation, it has already happened where every agency wanted to have its own training facility. And they were proliferating all over the western part of the United States. I think as far as economy and scale is concerned with the acquisition of Artesia—and I am not being defensive about the thing, I think it was a good buy, and it has been well run. And you folks are already turning people out there. How many classes have you got in progress?

ARTESIA FACILITY

Mr. RINKEVICH. Let me see if I can give you——

Mr. SKEEN. Give me a status on that.

Mr. RINKEVICH. We expect, Mr. Skeen, that during fiscal 1990 we will train about 702 students at the conclusion of this Fiscal Year.

Mr. SKEEN. At the end of this Fiscal Year in October 1990?

Mr. RINKEVICH. That will be October of this year. We are looking at about 700 students. The average resident student population the Center anticipates will be 30 during this period. For fiscal year 1991, the Center is projecting about 3000 students, for an average resident student population of about 112. Keep in mind that the facility is not yet complete.

Mr. SKEEN. We understand that. We ran into an asbestos problem.

ASBESTOS PROBLEM

Mr. RINKEVICH. That is correct. Yes, sir.

Mr. SKEEN. Otherwise, we would have a real bargain, I would have thought. We had to take care of the asbestos thing. As everybody is finding out, I think that has been a mistake as far as the whole country is concerned. But nevertheless, we conformed to the standards. And it is all done, is it not?

Mr. RINKEVICH. All the asbestos I think is completely removed, and we are awaiting construction on that octagonal classroom building that will be reconfigured to the Center's needs.

Mr. SKEEN. Let me ask you some general questions. One of the aspects of your type of training facility has been the inclusion of local law enforcement and community law enforcement groups. And I want to commend you on that part of the program. It has been very valuable, I think not only at Glynco, but at every installation that you have. And I think it has elevated the proficiency and professionalism of the whole law enforcement communities across the United States.

Do you feel comfortable that the way the kind of training that we are giving these folks at the FLETC facilities equips them to really confront or to deal with the problem of the so-called state-of-the-art criminal that we are dealing with today?

STATE/LOCAL TRAINING

Mr. RINKEVICH. Yes, sir. In the subject areas that the center provides the training. As you know, the Center has made some conscious decisions about how we will expend our time with training our state and local colleagues. One of those decisions is that the center will not try to duplicate basic training that can be obtained from their state academies and regional academies.

Mr. SKEEN. No. You do not want to get any redundancy.

FIRST RESPONDER TRAINING

Mr. RINKEVICH. That is right. The specialized training that is provided is state-of-the-art. In fact, the Center is developing some interesting new state and local training programs. One of the programs that is being developed is called first responder training program. It is, in effect, a "train the trainer" program, and it will equip our state and local colleagues with the things they need to do when they confront a terrorist incident.

This is being done in conjunction with the FBI so that there can be complete compatibility with what the center teaches, along with the FBI and what the FBI's responsibilities are when they actually respond to one of these scenes. Also, the center is doing an interesting program in anti-terrorism in seaport security.

Mr. SKEEN. Seaport security?

OTHER STATE/LOCAL TRAINING

Mr. RINKEVICH. Seaport security for our state and local colleagues. The center is developing a boating accident investigation training program with the proliferation of recreational boating. Local law enforcement confronts unique situations, and they are ill-prepared to handle investigations of boating accidents, particularly fatalities where there may be alcohol involved or some other very, very serious negligence. The center is developing this program to assist them in that area.

Mr. SKEEN. That will not be a barn burner in New Mexico, but——

Mr. RINKEVICH. Unless the rain comes.

Mr. SKEEN. We do have our share of boating accidents, of course.

Mr. RINKEVICH. Yes. To answer your question succinctly, we think what State and local officers are getting state-of-the-art training. And it is not just from the center itself. As you know, we rely on our agencies: ATF, Secret Service, Marshall's Service, Customs, the whole range of agencies to help us provide that training.

Mr. SKEEN. How cognizant or sensitive are you to future demands and staying ahead of this thing?

Mr. RINKEVICH. For state and local training?

Mr. SKEEN. No. For all of it. For the whole spectrum of training.

FUTURE TRAINING NEEDS

Mr. RINKEVICH. Well, we spend a lot of time worrying about what is going to happen in the future. For example, in the state and local training, one of the things that the center does is work closely with the FBI. They send out annually a questionnaire to a

whole range of state and local police officials on what their manpower needs are that the government ought to be aware of. The center has specifically tailored some questions so that we can learn from the state and local practitioners what their training needs are, and particularly those that the center can satisfy.

The center has a constant dialogue with our own agencies to determine the kinds of things that they see that the center needs to get involved in in terms of facilities or programs. I think we do a decent job with that, and I think that is partly because the center has such great credibility with our agencies. When we ask, "Is there something out there that we ought to be doing in training that you are aware of?" They provide us good feedback.

Recently, the center just had two colloquys through our Financial Fraud Institute dealing with what should the Center being doing in money laundering. In fact, that colloquy just concluded, I think yesterday. The center had the FBI, Customs Service, ATF and others telling us the kind of training we needed to be developing to deal with the multi-agency task forces involved in money laundering.

Also, there was an earlier colloquy in January of this year where the center addressed the question of what is going on in telecommunications fraud. If there is a training need, The Center is trying to determine state and local as well as federal investigation requirements in the area of telecommunication fraud. Computer fraud is becoming a very, very expensive crime that is confronting businesses, as well as individuals.

TELECOMMUNICATIONS FRAUD

Mr. SKEEN. What do you mean by telecommunications fraud?

Mr. RINKEVICH. For example, people that get into the blue boxes. Hackers that get into the telephone system.

Mr. SKEEN. Oh.

Mr. RINKEVICH. We had an example in our telecommunications fraud where a university not very far from here realized a multi-million dollar loss in telephone charges that they were responsible for because somebody had gotten into their system.

Mr. SKEEN. They have teenage kids.

Mr. RINKEVICH. Well, a whole bunch of them. They all know how to defeat the system. There are other ways of using the telephone lines to commit fraud. The center is looking at training needs in this area.

Mr. SKEEN. What about anti-terrorism, insofar as FLETC is concerned? Is your budget adequate to cover that? Do you cover that kind of training?

ANTI-TERRORISM TRAINING PROGRAMS

Mr. RINKEVICH. The center covers some state and local anti-terrorism training. Of course, the center does a great deal of Federal training in this area, also. If you will give me just one second to find——

Mr. MILLER. Page 29.

Mr. RINKEVICH. This will give me a summary of what the center is doing. The center has included in basic training programs what

the students should know about terrorism. These courses range from eight hours to 28 hours long. There is a three day anti-terrorism management training program for mid-level managers to deal with the question of managing an organization and being prepared to deal with a terrorist incident. The center has a planning program so that these same organizations can learn to prepare contingency plans.

Also, the center has a physical security managers program. That is where a person who is managing a sensitive government facility learns how to protect that facility, not only from a terrorist attack, but from any kind of illegal intrusion. The center has an advanced program in that same area for the personnel who actually man those systems so they know what various things mean when the "bells" go off. I have already mentioned the seaport security anti-terrorism program and the first responder terrorism program.

Also, the Center is developing a program to deal with the criminal analytical process in analyzing the terrorist threat. Since this is such a narrow field, the Center is going to combine that program with a general criminal analytical training program. Thus agencies who utilize personnel for analyzing intelligence and who are trying to make decisions about investment of resources, including actual operational decisions about investigations, will have a way to get those people trained. Federal law enforcement, as well as state and local have a need for training criminal intelligence analysts. And we are trying to deal with that through the terrorism program.

Mr. SKEEN. But you have that in your curriculum already?

Mr. RINKEVICH. Yes, sir.

Mr. SKEEN. That is excellent. I do not ask this question to be strange, but how are your negotiations coming with DEA to move them back over to the Federal Law Enforcement Training Center? Or is that a question you would rather not take up?

DEA TRAINING

Mr. RINKEVICH. No. I think that you should all be aware of what is developing at this time.

Mr. SKEEN. We have a very avid interest in what is happening, because I think that goes to the heart of the problems we have talked about before.

Mr. RINKEVICH. As you know, DEA trained at the Center until about 1985. Fiscal year 1985 was the first year that they relocated to Quantico because the FBI and DEA were going to merge into one organization. It is apparent that the merger is not going to occur. Also, it is also apparent that there is inadequate space and time at Quantico to accommodate the training for both agencies. One of them, I think it is the FBI, is going to realize in the near future a tremendous need for new hires because of retirement bulges in their hiring.

We know that they need to expand in Quantico. The Center has offered to DEA, formally and informally, by means of letters as well as conversations with Administrator Jack Lawn, to accommodate at the Center any of the needs that DEA would like. The Center has expressed a willingness to sit with Justice officials and analyze together what those needs are.

We believe that, particularly with the master plan funding, the Center can be successful—and you all have been so supportive—in the very near future, to accommodate most, if not all, of DEA's training needs. There is even some space now in the tracking schedule that we could accommodate some of their interim needs.

Frankly, I think that there are decisions that need to be taken at the Department of Justice level, and within DEA and the FBI that are beyond both my control obviously, as well as my knowledge. The Center believes that there is an opportunity here for us to help DEA, and we are willing to do that. The Center awaits a decision to discuss the issue further.

Mr. SKEEN. Am I mistaken, or do I seem to recall some information that the DEA is requesting now an additional facility at Quantico, specifically dedicated to their own needs outside the FBI?

DEA TRAINING FACILITY

Mr. RINKEVICH. I do not know all the details of that, but it is my understanding that one of the decisions that they will or may have been taken to the department is whether to expand the physical plant at Quantico to accommodate DEA's training, as well as additional FBI training. Who does what to whom, I am not quite sure about. However, there is apparently a need to provide for that expansion.

Frankly, as you know, based on the Center's experience with Artesia and the agency that first began to express an interest there, agencies prefer to do their own training. It is a part of the esprit de corps. To some extent it is a loss of control over one's own program when you participate in something that is common. There is a natural predisposition for agencies to want to do their own training. I think the Center's interest is to be good stewards for our program; to point out that the Center can do training a lot cheaper; and take advantage of the common activity and the common expertise that the Center can bring together when we are all together.

Mr. SKEEN. The Chairman and I share a concern about the economy of the entire thing. The provincialism and parochialism aside from this thing is whether or not it works efficiently and whether it works to the best use of the federal dollar. I want to say to you that as far as the Artesia operation is concerned, I could not have asked for any better relationship in the way the transition has been made and work is going. If we can get you some decent transport in there now, I think we will pretty well have most of the major problems resolved. And we are working on that, too. So thank you very much for the testimony. Thank you, Mr. Chairman.

Mr. RINKEVICH. Thank you.

Mr. ROYBAL. Thank you. Mr. Rinkevich, what is the Financial Fraud Institute? The proposed cost of that is over $1 million. Why do we need that?

FINANCIAL FRAUD INSTITUTE

Mr. RINKEVICH. The mission of the Financial Fraud Institute, Mr. Chairman, is based on the increase in fraud against the government and in the movement of money through illegal devices, such as money laundering due to the narcotics trade.

The idea of the Financial Fraud Institute is to put in one place a staff of professional trainers who, in concert with the agencies that the Center trains—and obviously they are most of the people in the Federal government that are in law enforcement—can stay ahead of what is going on with crimes against the government that are sophisticated financial crimes, computer related crimes, and telecommunications related crimes.

This institute will be holding colloquys to identify what the trends are so that the Center can develop programs to better prepare IRS, Customs, Secret Service, and other agencies. The Institute has a program that trains the Inspectors General. The whole community of Inspectors General participate at the Center in this program.

Also, the Institute has a computer fraud training program and two computer literacy programs for investigators. If the Center receives the funding, the Institute would have a computerized bulletin board so that agencies can find out what is available for training in this highly moving, highly technical area.

The problem with computer fraud is that it is changing daily. The center needs to have a mechanism available so that as changes occur, we can develop programs that will not be dated by the time they are actually delivered. That is what the Financial Fraud Institute will do principally.

Mr. ROYBAL. All right. Is the $1 million that being requested is for operations only? What about equipment? Is that in addition to that?

Mr. RINKEVICH. Some of that is equipment.

Mr. ROYBAL. The $1 million does, in fact, include equipment.

Mr. RINKEVICH. Yes, it does. Let me verify that for you, Mr. Chairman.

Mr. ROYBAL. Yes.

Mr. KELSO. Mr. Director, if I may. The equipment is $520,000 of that figure.

Mr. RINKEVICH. Okay.

Mr. ROYBAL. All right. So approximately half of that is for equipment, and the balance is for the operation of the Financial Fraud Institute.

Mr. KELSO. Yes, sir. Developmental costs. There is travel, printing, other type of services, materials, supplies, the normal things, and, of course, program development.

Mr. ROYBAL. Is that amount included in the budgetary request?

Mr. KELSO. Yes, it is.

Mr. ROYBAL. All right. I would like to ask Mr. Rinkevich to provide for the record various things.

Mr. RINKEVICH. Okay.

REQUESTS FOR THE RECORD

Mr. ROYBAL. So we can proceed and adjourn this hearing. Will you provide for the record a list of the agencies that send students to your center for training? And also, I would like to know the various state and local law enforcement agencies that send students to

you, and whether or not that training is reimbursable. Included with that, we would like to know the kind of anti-terrorist training that you are providing today; whether or not that is advanced training, or is it included in basic training.

And we would like to know whether the anti-terrorist training is also made available to state and local law enforcement agencies, as well as agencies within the Federal government. We would like to have an estimate of the cost of each instance. Will that be much of a problem?

Mr. RINKEVICH. We can do that for you, Mr. Chairman, with no problem at all.

Mr. ROYBAL. All right. I will appreciate if that is done and then included in the record. I think, Mr. Rinkevich, that we have asked all of the questions. Any questions that we can submit to you in writing will be forthcoming. And we hope you can answer them as soon as possible.

Mr. RINKEVICH. We appreciate your time.

CLOSING

Mr. ROYBAL. I would like to thank you, sir, and your colleagues for your presence. It is always a pleasure to talk to you. I would like to, as soon as I can, go visit you again. I like your facility, and I do not think you should give up any land.

Mr. RINKEVICH. We are not. I can tell you that. You have a standing invitation to come to us at any time.

Mr. ROYBAL. I thank you, sir.

Mr. RINKEVICH. Thank you.

[Questions for the record follow:]

Mr. ROYBAL. Please provide a list of Federal agencies that train at the Center.

Mr. RINKEVICH. There are sixty-two participating agencies. They are as follows:

EXECUTIVE DEPARTMENT

Department of Agriculture: U.S. Forest Service.

Department of Commerce: National Institute of Standards and Technology, National Marine Fisheries Services, Office of Security, Office of Export Enforcement.

Department of Health and Human Services: National Institutes of Health, Social Security Administration.

Department of the Interior: Bureau of Indian Affairs, Bureau of Land Management, Bureau of Reclamation, National Park Service, Office of Surface Mining, Reclamation and Enforcement, U.S. Fish and Wildlife Service.

Department of Justice: Bureau of Prisons, Drug Enforcement Administration, Immigration and Naturalization Services, U.S. Marshals Service.

Department of State: Bureau of Diplomatic Security.

Department of Transportation: Federal Aviation Administration, U.S. Coast Guard.

Department of the Treasury: Bureau of Alcohol, Tobacco and Firearms, Bureau of Engraving and Printing, Internal Revenue Service, U.S. Customs Service, U.S. Mint, U.S. Secret Service.

Department of Defense: Defense Protective Service, Naval Investigative Service, National Security Agency.

President's Council on Integrity and Efficiency:

Statutory Inspectors' General Offices: Agency for International Development, Agriculture, Commerce, Defense, Education, Energy, Environmental Protection Agency, General Services Administration, Health and Human Services, Housing and Urban Development, Interior, Labor, National Aeronautics and Space Administration, Railroad Retirement Board, Small Business Administration, State, Transportation, Veterans Administration.

LEGISLATIVE BRANCH

Congress: Government Printing Office, Library of Congress Police, U.S. Capitol Police.

JUDICIAL BRANCH

Supreme Court: Supreme Court Police.

INDEPENDENT AGENCIES

AMTRAK: Northeast Corridor Police.
Central Intelligence Agency: Office of Security.
Environmental Protection Agency: Office of Criminal Investigations.
Federal Emergency Management Agency: Office of the Inspector General.

SECURITY DIVISION

General Services Administration: Office of Physical Security and Law Enforcement.
Smithsonian Institution: National Zoological Park Police, Office of Protection Services.
Tennessee Valley Authority: Land Between the Lakes Patrol, Office of the Inspector General, Public Safety Service.
The Center also trains several Federal agencies on a space available and reimbursable basis. Included in this category are the Department of Labor, uniformed Department of Defense personnel and a few others.

STATE AND LOCAL TRAINING

Mr. ROYBAL. What State and Local agencies train at the Center?
Mr. RINKEVICH. All State and Local law enforcement agencies are eligible to participate in the Center's training programs. We have trained students from all fifty states and most of the U.S. territories.
Mr. ROYBAL. Is this training reimbursable?
Mr. RINKEVICH. The training is provided on a shared-funding concept. The State and Local law enforcement agencies are responsible for the students' round-trip travel, enroute per diem, salary and reimburses the Center for food and lodging while the student is in training. The Center provides a limited subsidy to off-set part of the tuition cost.

ANTITERRORISM TRAINING

Mr. ROYBAL. Is antiterrorism training a part of Basic or Advanced training?
Mr. RINKEVICH. Antiterrorism training is included in both the Basic and Advanced training areas.
A summary of the antiterrorism programs and the length of training is:

Program	*Days*
Basic:	
Criminal investigator	2
Police investigator	.5
Police training	4
Land management	1
Immigration detention officer	1
Customs inspectors	4
Immigration officer	1
Border patrol	1
Park police	3
Immigration special agent	1
Center-Conducted Advanced:	
Antiterrorism management	3
Antiterrorism contingency planning	3
Physical security for managers	3
Advanced physical security	8
State and Local:	
Seaport security/antiterrorism	8
First response	5

Agency-Conducted Advanced: Provided upon request from agency—varies.
Mr. ROYBAL. Is antiterrorism training available to State and Local agencies as well as Federal agencies?

Mr. RINKEVICH. Yes. All of the Advanced antiterrorism programs are available to State and Local students.

Mr. ROYBAL. What is the cost of this training?

Mr. RINKEVICH. The antiterrorism training in Basic programs is just a small part of each Basic program. As an example, the Criminal Investigator program is 43 days long. The antiterrorism portion of this program is 2 days long. The fiscal year 1990 cost of the Criminal Investigator program is $1,581. The estimated amount for antiterrorism is $74. The Advanced programs are entirely devoted to antiterrorism. The programs that are currently being offered and the fiscal year 1990 costs are: Advanced Physical Security, $378; Antiterrorism Contingency Planning, $73; Antiterrorism Management, $154; Physical Security Managers, $90; Seaport Security/Antiterrorism, $727; and First Response, $313. The Basic training is funded by the Center, and the Advanced and State and Local training is reimbursable by the participants.

[The justifications follow:]

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	450	425	36,000
Adjustments:			
Sequestration (P.L. 99-177)	0	0	(501)
FY 1990 Authorized Level	450	425	35,499
Estimate for FY 1991	450	425	36,727

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES

(Dollars in thousands)

	ACTUALS FY 1989		AUTHORIZED LEVEL FY 1990		BUDGET ESTIMATE FY 1991		INCREASE (+) OR DECREASE (-) FOR FY 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Law Enforcement Training	223	22,201	248	22,213	248	23,648	---	1,435	---	968	---	467
2. Plant Operations	149	10,930	165	12,037	165	11,790	---	(247)	---	(247)	---	---
3. State and Local Training	12	1,025	12	1,249	12	1,289	---	40	---	(11)	---	51
4. Minor Construction & Maintenance	---	326	---	---	---	---	---	---	---	---	---	---
5. Dormitory Construction	---	164	---	---	---	---	---	---	---	---	---	---
Unobligated balance available, SOY	---	(2,586)										
Unobligated balance available, EOY	---	2,095										
Unobligated balance lapsing	---	209										
Total appropriation, authorized level, and budget estimate	384	34,364	425	35,499	425	36,727	---	1,228	---	710	---	518
Permanent positions	450		450		450							

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED

(Dollars in thousands)

	Law Enforcement Training			Plant Operations			State and Local Training			Total		
Program Changes:	Perm Pos.	FTE	Amount	Perm Pos.	FTE	Amount	Perm Pos.	FTE	Amount	Perm Pos.	FTE	Amount
1. Financial Fraud Institute	---	---	1,001	---	---	---	---	---	---	---	---	1,001
2. Artesia Plant Operations	---	---	225	---	---	---	---	---	---	---	---	225
3. Program Reductions to Offset Pay Costs and Other Absorptions	---	---	(258)	---	---	(247)	---	---	(11)	---	---	(516)
Total, Program Changes	---	---	968	---	---	(247)	---	---	(11)	---	---	710
Other Changes:												
Increases Necessary to Maintain Current Levels:												
1. Annualization for FY 1990 Pay Act Increases	---	---	105	---	---	43	---	---	4	---	---	152
2. Increased Cost for Proposed FY 1991 Pay Raise	---	---	296	---	---	140	---	---	12	---	---	448
3. Increased Costs for EX/SES Pay Raise (P.L. 101-194)	---	---	30	---	---	---	---	---	---	---	---	30
4. Increased Cost for Additional Compensable Day	---	---	41	---	---	21	---	---	2	---	---	64
5. Increased Cost of Health Insurance	---	---	58	---	---	25	---	---	5	---	---	88
6. Increased Cost of Workers Compensation	---	---	---	---	---	2	---	---	---	---	---	2
7. Increased Cost of Other Benefits	---	---	22	---	---	11	---	---	1	---	---	34
8. Increased Cost of Travel of Persons	---	---	60	---	---	18	---	---	2	---	---	80
9. Increased Cost of Transportation of Things	---	---	3	---	---	2	---	---	---	---	---	5
10. Increased Cost of Rent, Communications and Utilities	---	---	51	---	---	(353)	---	---	1	---	---	(301)
11. Increased Cost of Printing and Reproduction	---	---	22	---	---	4	---	---	---	---	---	26
12. Increased Cost of Other Services	---	---	215	---	---	86	---	---	21	---	---	322
13. Increased Cost of Materials and Supplies	---	---	97	---	---	69	---	---	2	---	---	168
14. Increased Cost of Equipment	---	---	50	---	---	49	---	---	1	---	---	100
Subtotal, Adjustments Necessary to Maintain Current Levels	---	---	1,050	---	---	117	---	---	51	---	---	1,218

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED

(Dollars in thousands)

	Law Enforcement Training			Plant Operations			State and Local Training			Total		
	Perm Pos.	FTE	Amount	Perm Pos.	FTE	Amount	Perm Pos.	FTE	Amount	Perm Pos.	FTE	Amount
Reductions, Nonrecurring Costs and Savings:												
1. Nonrecurring Costs	---	---	(583)	---	---	(117)	---	---	---	---	---	(700)
Subtotal, Reductions, Nonrecurring Costs and Savings	---	---	(583)	---	---	(117)	---	---	---	---	---	(700)
Total, Other Changes	---	---	467	---	---	---	---	---	51	---	---	518
Total Increases or Decreases Compared With FY 1990 Authorized Level	---	---	1,435	---	---	(247)	---	---	40	---	---	1,228

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

The Federal Law Enforcement Training Center (FLETC) provides the necessary facilities, equipment and support services for conducting Basic and Advanced training for Federal law enforcement personnel of the 62 participating organizations. Center personnel conduct the instructional programs for the Basic recruit training and also selected portions of the Advanced training. In addition, the Center furnishes training on a space-available basis to personnel from several Federal organizations which are not formal participants under the Memorandum of Understanding.

In October 1982, the President directed that a National Center for State and Local Training be established as part of the FLETC. The major program goals are to present advanced and specialized program offerings and to provide basic technical assistance to State and Local law enforcement agencies. FY 1985 was the first year in which partial funding for this activity was provided in the FLETC appropriation.

In FY 1991, direct obligations are estimated to be $36,727,000 which is an increase of 1,228,000 from the FY 1990 appropriation level of $35,499,000. The net increase of $1,228,000 includes an increase of $1,218,000 for maintaining current levels, program increases of $710,000 and decreases for nonrecurring costs of $700,000. The program increase involves $1,001,000 for the Financial Fraud Institute and $225,000 for Artesia Plant Operations. This appropriation request anticipates that the funded Average Resident Student Population (ARSP) for FY 1991 will be 1,295.

A summary of Center activities and selected workload data follows:

1. Law Enforcement Training

During FY 1989, 20,093 students representing 90,757 student-weeks were trained in programs for Federal officers. Eighty-four percent (84%) of this training was related to Basic programs and sixteen percent (16%) of the training was related to Advanced programs. The total ARSP during FY 1989 was 1,745. A total of 10,694 Basic students representing 74,617 student-weeks of training and an ARSP of 1,435 were trained and funded by the Center.

This represents 100% of the participating organizations' request for Basic training. Additionally, a total of 9,399 students representing 16,140 student-weeks and an ARSP of 310 were trained on a reimbursable basis. This training was for space-available Basic training and participating organizations Advanced training.

The FY 1990 appropriation level allows the Center to fund 11,623 students involving 73,572 student-weeks of training (1,415 ARSP) in the Basic training programs of the Center. This represents 100% of the participating organizations request for Basic training. In addition, on a reimbursable basis, the Center currently projects training for 13,926 students representing 26,697 student-weeks of training and an ARSP of 513. This training was for space-available Basic training and participating organizations Advanced training. When combined, this funded and reimbursable training represents an ARSP of 1,928 with a mix of 73% Basic and 27% Advanced in student-weeks of training.

In FY 1991, the budget request provides funding for 11,574 students involving 67,365 student-weeks of training (1,295 ARSP) in Basic training programs. This represents 100% of the participating organization's request for Basic training. In addition, on a reimbursable basis, the Center currently projects training for 16,793 students representing 32,025 student-weeks of training and an ARSP of 616. This training is for space-available Basic training and participating organizations Advanced training. When combined, this training represents an ARSP of 1,911 with a mix of 68% Basic and 32% Advanced in student-weeks of training.

2. Plant Operations

The Plant Operations activity provides support for the training mission in the areas of Personnel, Budget and Finance, Procurement, Property Management, Management Analysis, Media Support, Scheduling, Safety and Security, Facilities Management, and Information Systems. The budget request reflects funding required to fully support the training workload in the area of facilities support.

3. State and Local Training

The National Center for State and Local Training was initiated by the President in October 1982 as part of a national strategy to combat crime. The Department of Justice

provided funds to finance the pilot phase of the program and the initial training conducted in FY 1983 and 1984. Since 1983 an Advisory Committee, comprised of representatives of various law enforcement agencies, professional police organizations, citizens interest groups and universities, has provided advice on training policy, curriculum, admission standards and course evaluation. During FY 1989, 3,280 students (representing 4,012 student-weeks) were trained in the program. This training represents 4% of the total Center workload.

The Center's FY 1990 appropriation provides $1,249,000 for the State and Local program. This funding level will provide for staff resources to administer and coordinate the National Center; initiate course development, revision and evaluation processes; and meet staffing requirements for course presentations to be delivered both on and off site. State and Local agencies will be responsible for all expenses related to student salaries, benefits, travel and per diem, and a portion of course delivery costs. This funding will support the training of 3,799 students (4,617 student-weeks). This represents 5% of the total Center workload.

The $1,289,000 requested for FY 1991 will continue funding for program development and evaluation, the Advisory Committee, Center staff of the National Center, and administration. This funding will support the training of 3,807 students (4,625 student-weeks) during FY 1991. State and Local agencies will continue to be responsible for all expenses related to student salaries, benefits, travel and per diem, and a portion of course delivery costs. The projected training represents 5% of the total Center workload. During each of the years FY 1989 through FY 1991, approximately 1,000-1,500 students will be trained at Glynco with the balance trained on an export basis at various sites throughout the country where geographical concentrations of students can be identified.

DEPARTMENT OF THE TREASURY
FEDERAL LAW ENFORCEMENT TRAINING CENTER

Federal Funds

General and Special Funds:

SALARIES AND EXPENSES

For necessary expenses of the Federal Law Enforcement Training Center, as a bureau of the Department of the Treasury, including purchase (not to exceed thirty for police-type use) and hire of passenger motor vehicles; for expenses for student athletic and related activities; uniforms without regard to the general purchase price limitation for the current fiscal year; the conducting of and participating in firearms matches and presentation of awards; for public awareness and enhancing community support of law enforcement training; not to exceed $5,000 for official reception and representation expenses; room and board for student interns; and services as authorized by 5 U.S.C. 3109: Provided, That the Center is authorized to accept gifts: Provided further, That notwithstanding any other provision of law, students attending training at any Federal Law Enforcement Training Center site shall reside in on-Center or Center-provided housing, insofar as available and in accordance with Center policy: Provided further, That funds appropriated in this account shall be available for State and local government law enforcement training on a space-available basis; training of foreign law enforcement officials on a space-available basis with reimbursement of actual costs to this appropriation; training of private sector security officials on a space-available basis with reimbursement of actual costs to this appropriation; travel expenses of non-Federal personnel to attend State and local course development meetings at the Center: Provided further, That the Director of the Federal Law Enforcement Training Center shall annually present an award to be accompanied by a gift of intrinsic value to the outstanding student who graduated from a basic training program at the Center during the previous fiscal year, to be funded by donations received through the Center's gift authority. [Provided further, That the Federal Law Enforcement Training Center shall hire up to and maintain an average of not less than 425 direct full-time equivalent positions for fiscal year 1989;] $36,727,000: [Provided further, that none of the funds appropriated under this heading shall be used to reduce the level of advanced training or other training activities of the Federal Law Enforcement Training Center at Marana, Arizona.] (Treasury Department Appropriations Act, 1990)

EXPLANATION OF APPROPRIATION LANGUAGE CHANGES

The FY 1990 appropriation language regarding FTE ceilings and training at Marana is deleted because it is not applicable to FY 1991.

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
I. Criminal Investigator Basic Training						
A. Interior						
1. Bureau of Indian Affairs	19	27	15	20	20	
2. Fish & Wildlife Service	30	0	20	15	15	
3. Other	9	12	14	17	2	
B. Justice						
1. U. S. Marshals Service	142	116	240	240	284	
C. Treasury						
1. Alcohol, Tobacco & Firearms	362	190	100	400	350	
2. U. S. Customs Service	624	302	192	265	265	
3. Internal Revenue Service (CID)	392	174	505	504	93	
4. Internal Revenue Service (IS)	75	22	70	48	50	
5. U. S. Secret Service	58	64	110	100	70	
6. Other	3	1	3	4	4	
D. Other U.S. Government						
1. President's Council on Integrity and Efficiency	177	139	118	132	145	
2. State Department	99	0	48	96	48	
3. Naval Investigative Service	141	153	144	48	144	
4. U. S. Capitol Police	4	5	6	6	6	
5. Other	85	59	84	163	99	
E. State and Local	4	7	0	0	0	
TOTAL--Graduates	2,224	1,271	1,669	2,058	1,595	-22%
--Student-weeks of Training	17,331	10,522	13,352	17,699	13,717	-22%
Reimbursable--Graduates	37	56	93	92	37	
--Student-weeks of Training	310	467	742	791	318	

NOTE: Student allocations are made when budget authority level is determined. All training in excess of allocations is on a reimbursable basis.

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
II. Police Basic Training						
A. Eleven Week Program	39	98	100	100	100	
1. Bureau of Indian Affairs	39	98	100	100	100	
B. Nine Week Program	248	231	386	287	283	
1. Bureau of Land Management	16	6	2	5	2	
2. Fish & Wildlife Refuge	42	49	48	50	50	
3. Forest Service	59	62	150	80	80	
4. National Park Service	125	111	180	150	150	
5. Tennessee Valley Authority	6	3	6	2	1	
C. Eight Week Program	700	685	822	881	760	
1. AMTRAK	32	26	10	25	20	
2. Bureau of Engraving & Printing	10	5	5	25	25	
3. Central Intelligence Agency	145	74	80	120	100	
4. Defense Protective Service	5	34	15	20	5	
5. National Security Agency	134	157	200	124	118	
6. Real Property Management & Safety	39	48	64	0	56	
7. Supreme Court Police	16	0	10	10	0	
8. U. S. Mint	15	20	37	25	37	
9. U. S. Capitol Police	112	86	120	120	120	
10. U. S. Secret Service	110	152	192	192	192	
11. Other	62	83	89	220	87	
F. Five Week Police Investigator Program	22	22	58	59	39	
1. National Park Service	6	8	12	15	15	
2. Forest Service	13	11	40	10	10	
3. Other	3	3	6	34	14	
TOTAL--Graduates	1,009	1,036	1,366	1,327	1,182	-11%
--Student-weeks of Training	8,111	9,474	11,394	11,680	10,517	-10%
Reimbursable--Graduates	51	134	76	167	43	
--Student-weeks of Training	433	1,391	633	1,414	352	

NOTE: Student allocations are made when budget authority level is determined. All training in excess of allocations is on a reimbursable basis.

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
III. Police Integrated Basic Training						
A. Eighteen-Week Program.....	44	201	690	192	175	
Immigration Spec. Agent..Student-weeks	2,302	2,196	12,144	3,418	3,115	
B. Seventeen Week Program.....	484	1,046	1,200	288	432	
Border Patrol.....Student-weeks	10,423	18,912	21,360	5,126	7,690	
C. Seventeen Week Program.....	117	24	96	72	96	
Park Police.....Student-weeks	1,438	403	1,651	1,267	1,690	
D. Fourteen Week Program.....	477	607	821	576	212	
Immigration Officer.....Student-weeks	8,180	7,759	11,658	8,525	3,138	
E. Nine Week Program.....	643	706	540	624	560	
Customs Service.....Student-weeks	6,542	5,842	4,860	5,616	5,040	
F. Six Week Program.....	135	103	201	192	130	
Immigration Detention Ofc..Student-weeks	818	674	1,286	1,306	884	
TOTAL--Graduates	1,900	2,687	3,548	1,944	1,605	-17%
--Student-weeks of Training	29,703	35,786	52,959	25,258	21,557	-15%
Reimbursable--Graduates	0	0	197	0	0	
--Student-weeks of Training	0	0	2,941	0	0	

NOTE: Student allocations are made when budget authority level is determined. All training in excess of allocations is on a reimbursable basis.

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
IV. Other Basic Training						
A. Interior						
1. Fish & Wildlife Service (Agents)	25	0	20	15	15	
2. Fish & Wildlife Service (Refuge)	13	53	48	50	50	
3. National Park Service	6	8	12	165	165	
4. Other	1	0	13	1	13	
B. Justice						
1. Bureau of Prisons	2,046	3,256	3,360	3,744	4,608	
2. U.S. Marshals	342	278	480	480	568	
3. Other	77	41	0	0	0	
C. Treasury						
1. Alcohol, Tobacco, & Firearms (Agents)	217	263	240	240	240	
2. Alcohol, Tobacco, & Firearms (Compliance)	109	134	180	180	180	
3. U.S. Customs (Agents)	548	642	240	265	265	
4. U.S. Customs (Import Specialists)	171	236	180	216	312	
5. Internal Revenue Service (CID)	558	509	1,010	756	280	
6. Internal Revenue Service (IS)	89	34	75	48	55	
7. Other	1	1	0	0	0	
D. Other U. S. Government						
1. Forest Service	15	16	20	100	100	
2. Naval Investigative Service	241	341	288	96	288	
3. President's Council on Integrity & Efficiency	70	107	91	170	110	
4. State Department	95	23	48	0	0	
5. Other	18	11	55	56	35	
E. State and Local	1	4	0	0	0	
TOTAL--Graduates	4,643	5,957	6,360	6,582	7,284	11%
--Student-weeks of Training	17,305	20,733	21,939	21,227	22,280	5%
Reimbursable--Graduates	18	11	358	29	12	
--Student-weeks of Training	82	40	1,218	87	36	

NOTE: Student allocations are made when budget authority level is determined. All training in excess of allocations is on a reimbursable basis.

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
V. Center Advanced Training						
A. Advanced Interviewing (1 wk)	0	37	0	279	264	
B. Advanced Law Enforcement Photography (1.6 Wks)	0	35	219	234	148	
C. Advanced Microcomputer (1.0 Wk)	43	55	190	135	63	
D. Advanced Marine Law Enforcement (2.8 Wks)	16	87	218	145	143	
E. Advanced Physical Security (1.6 Wks)	11	66	0	107	34	
F. Anti-Terrorism Contingency Planning (.6 Wks)	19	65	0	58	33	
G. Anti-Terrorism Management (.6 Wks)	28	45	37	57	50	
H. Archeological Resources Protection (1 Wk)	124	145	101	128	98	
I. Basic Instructor (2 Wks)	76	114	114	179	126	
J. Basic Microcomputer (1 Wk)	77	47	164	169	126	
K. Computer Investigations in an Automated Environment (2 Wks)	91	118	159	270	171	
L. Continuing Legal Education (.8 Wk)	20	106	164	236	161	
M. Driver Instructor (2 Wks)	37	31	45	47	73	
N. Firearms Instructor (2 Wks)	344	342	468	562	461	
O. Introduction to Criminal Investigations (2 Wks)	90	195	152	208	162	
P. Law Enforcement Spanish (2 Wks)	45	120	358	427	308	
Q. Marine Law Enforcement (3.8 Wks)	169	104	2b2	169	200	
R. National Wildfire Investigation (2 Wks)	0	0	61	61	35	
S. Officer Safety and Survival (1.6 Wks)	0	0	74	106	98	
T. Physical Fitness Coordinators (1.6 Wks)	46	125	129	146	165	
U. Physical Security Managers (.6 Wks)	12	65	0	68	21	
V. Technical Investigative Equipment (2 Wks)	0	36	161	153	178	
W. Vehicle Accident Investigation (.8 Wk)	44	0	134	0	0	
X. White Collar Crime (2 Wks)	196	163	278	348	272	
Y. Other	64	77	0	0	0	
TOTAL -- Graduates	1,552	2,178	3,508	4,292	3,390	-21%
-- Student-weeks of training	2,858	3,819	6,665	7,622	6,284	-18%
Reimbursable -- Graduates	1,552	2,178	3,508	4,292	3,390	
-- Student-weeks of Training	2,858	3,819	6,665	7,622	6,284	

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
VI. Agency Advanced Training						
A. Bureau of Alcohol, Tobacco & Firearms.....	163	250	522	398	494	
Student-weeks of Training.....	146	290	995	527	3,016	
B. Bureau of Indian Affairs.....	417	256	288	312	276	
Student-weeks of Training.....	678	346	768	624	432	
C. Bureau of Prisons.....	302	372	236	318	312	
Student-weeks of Training.....	425	401	315	520	516	
D. Customs Service.....	1,402	1,648	2,995	3,766	4,253	
Student-weeks of Training.....	2,309	3,443	5,798	7,854	7,277	
E. Federal Aviation Administration.....	251	308	174	320	320	
Student-weeks of Training.....	428	465	1,968	680	680	
F. Fish & Wildlife Service.....	541	600	310	463	323	
Student-weeks of Training.....	549	590	360	511	371	
G. Forest Service.....	179	207	396	240	350	
Student-weeks of Training.....	175	206	420	240	400	
H. Immigration & Naturalization Service.....	537	635	2,496	888	4,142	
Student-weeks of Training.....	1,097	1,233	4,304	2,036	8,606	
I. Internal Revenue Service.....	423	452	1,068	604	408	
Student-weeks of Training.....	528	447	1,384	725	522	
J. Marshals Service.....	660	837	2,168	1,264	1,823	
Student-weeks of Training.....	1,009	1,074	2,623	1,832	2,370	
K. National Park Service.....	92	66	72	96	96	
Student-weeks of Training.....	85	62	72	96	96	
L. Other.....	958	1,333	765	677	514	
Student-weeks of Training.....	1,175	1,866	1,128	1,138	749	
TOTAL -- Graduates	5,925	6,964	11,490	9,346	13,311	42%
-- Student-weeks of Training	8,604	10,423	20,135	16,783	25,035	49%
Reimbursable--Graduates	5,925	6,964	11,490	9,346	13,311	
--Student-weeks of Training	8,604	10,423	20,135	16,783	25,035	

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
VII. National Center for State and Local Training						
A. Advanced Arson for Profit Investigations (1.6 Wks)	109	105	108	108	108	
B. Advanced Explosives Investigative Techniques (2 Wks)	82	94	99	99	99	
C. Advanced Interviewing (1 Wk)	0	0	0	0	8	
D. Advanced Microcomputer (.8 Wk)	9	12	4	14	14	
E. Advanced Physical Security (1.6 Wks)	0	0	0	8	8	
F. Antiterrorism Contingency Planning (.6 Wks)	0	4	0	8	8	
G. Antiterrorism Management (.6 Wks)	0	1	0	8	8	
H. Archeological Resources Protection (Export)(1 Wk)	0	7	0	0	0	
I. Armed Criminal Investigations (1 Wk)	0	18	48	48	48	
J. Arson for Profit Investigations (1 Wk)	78	30	108	60	60	
K. Asset Seizure, Forfeiture & Sharing (1 Wk)	0	0	0	48	48	
L. Basic Microcomputer (1 Wk)	9	9	20	10	10	
M. Boating Accident Investigation (1 Wk)	0	0	0	24	24	
N. Cargo Theft Investigations (2 Wks)	0	0	0	48	48	
O. Child Abuse (.8 Wks)	73	114	80	0	0	
P. Child Abuse (Export)(.8 wks)	1,000	714	900	350	350	
Q. Computer Investigations in an Automated Environment (2 wks)	30	30	32	32	32	
R. Contraband Cigarette Smuggling Investigation (1 Wk)	28	22	24	48	48	
S. Court Security (1 Wk)	122	110	120	120	120	
T. Driver Instructor (2 Wks)	40	63	32	64	64	
U. Drug Law Enforcement (1 Wk)	0	78	0	120	120	
V. Firearms Instructor (2 Wks)	33	29	36	36	36	
W. First Response (.8 Wks)	0	27	0	96	96	
X. Fraud and Financial Investigations (2 Wks)	95	82	60	120	120	

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
(Continued)						
Y. Fraud and Financial Investigations (Export) (2 wks)	95	62	90	60	60	
Z. Fugitive Investigators Course (2 Wks)	71	69	72	72	72	
AA. Gangs/Illegal Drugs (1 wk)	0	0	0	50	50	
AB. Gangs/Illegal Drugs (Export)(1 Wk)	0	0	0	50	50	
AC. Hazardous Waste (2 Wks)	141	90	90	120	120	
AD. Juvenile Technical Assistance (Export) (1.6 wks)	687	493	960	800	800	
AE. Law Enforcement Spanish (2 Wks)	4	14	10	15	15	
AF. Managing Juvenile Operations (.6 Wks)	21	39	30	40	40	
AG. Managing Juvenile Operations (Export) (.6 wks)	0	176	90	200	200	
AH. Marine Law Enforcement (3.8 Wks)	9	34	36	28	28	
AI. Narcotics-Related Financial Investigations (.6 Wks)	0	39	0	0	0	
AJ. Physical Fitness Coordinators (2 Wks)	4	14	20	24	24	
AK. Physical Security Managers (.6 Wks)	0	12	0	8	8	
AL. Police Operations Leading to Improved Children & Youth Services I (POLICY I) (1 Wk)	49	22	40	0	0	
AM. POLICY I (Export) (1 wk)	200	154	280	200	200	
AN. POLICY II (1 Wk)	24	24	30	0	0	
AO. POLICY II (Export) (1 wk)	77	48	120	125	125	
AP. Prison Crisis Response Planning (1 Wk)	0	21	30	30	30	
AQ. Protective Operations Briefing (1 Wk)	45	61	48	60	60	
AR. Questioned Documents (1.8 Wks)	51	58	72	72	72	
AS. Seaport Security/Antiterrorism (1.6 Wks)	0	5	0	120	120	

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget Est.	1991 Estimate	Percent Increase 1991 over 1990
(Continued)						
AT. School Administrators for Effective POLICY (1 Wk)	0	0	0	40	40	
AU. School Administrators for Effective POLICY (Export) (1 wk)	224	207	240	160	160	
AV. Technical Investigative Equipment (2 Wks).	0	37	32	32	32	
AW. Undercover Investigative Techniques (2 Wks)	48	49	72	24	24	
AX. Other	3	3	0	0	0	
TOTAL -- Graduates	3,461	3,280	4,033	3,799	3,807	0%
-- Student-weeks of Training	4,023	4,012	4,436	4,617	4,625	0%
Reimbursable -- Graduates	3,461	3,280	4,033	3,799	3,807	
-- Student-weeks of Training	4,023	4,012	4,436	4,617	4,625	

Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors	1988 Actual	1989 Actual	1990 Program in 1990 1/ Budget	1990 Program in 1991 1/ Budget Est.	1991 2/ Estimate	Percent Increase 1991 over 1990
VIII. Summary						
A. Criminal Investigator Basic						
Students	2,224	1,271	1,669	2,058	1,595	
Student-weeks	17,331	10,522	13,352	17,699	13,717	
B. Police Basic						
Students	1,009	1,036	1,366	1,327	1,182	
Student-weeks	8,111	9,474	11,394	11,680	10,517	
C. Police Integrated Basic						
Students	1,900	2,687	3,548	1,944	1,605	
Student-weeks	29,703	35,786	52,959	25,258	21,557	
D. Other Basic						
Students	4,643	5,957	6,360	6,582	7,284	
Student-weeks	17,305	20,733	21,939	21,227	22,280	
E. Center Advanced						
Students	1,552	2,178	3,508	4,292	3,390	
Student-weeks	2,858	3,819	6,665	7,622	6,284	
F. Agency Advanced						
Students	5,925	6,964	11,490	9,346	13,311	
Student-weeks	8,604	10,423	20,135	16,783	25,035	
G. State and Local						
Students	3,461	3,280	4,033	3,799	3,807	
Student-weeks	4,023	4,012	4,436	4,617	4,625	
TOTAL Students	20,714	23,373	31,974	29,348	32,174	10%
Student-weeks	87,935	94,769	130,880	104,886	104,015	-1%
Average Resident Student Population (ARSP)	1,691	1,822	2,517	2,017	2,000	

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Federal Law Enforcement Training Center, Salaries & Expenses

SELECTED WORKLOAD DATA

Activity and Principal Workload Factors		1988 Actual	1989 Actual	1990 Program in 1990 1/ Budget	1990 Program in 1991 2/ Budget Est.	1991 2/ Estimate	Percent Increase 1991 over 1990
(Summary Continued)							
Reimbursable:	Students	11,044	12,623	19,755	17,725	20,600	
	Student-weeks	16,310	20,152	36,770	31,314	36,650	
	ARSP	314	387	707	602	705	
Funded:	Students	9,670	10,750	12,219	11,623	11,574	
	Student-weeks	71,625	74,617	94,110	73,572	67,365	
	ARSP	1,377	1,435	1,810	1,415	1,295	
Mix:	Criminal Investigator Basic	20%	11%	10%	17%	13%	
	Police Basic	9%	10%	9%	11%	10%	
	Police Integrated Basic	34%	38%	41%	24%	21%	
	Other Basic	20%	22%	17%	20%	21%	
	Center Advanced	3%	4%	5%	7%	6%	
	Agency Advanced	10%	11%	15%	16%	24%	
	State & Local	4%	4%	3%	5%	5%	

1/ Data as of July 1988.
2/ Data as of July 1989.

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full-Time Equivalent Positions)

	Actual 1989	Estimated 1990	Estimated 1991	Increase/Decrease for 1991 Total Changes	Increase/Decrease for 1991 Program Changes	Increase/Decrease for 1991 Other
Instructors	115	127	127	---	---	---
Stenographers, typists and secretaries	42	47	47	---	---	---
Training Support	45	50	50	---	---	---
Other Administrative Employees	135	150	150	---	---	---
Plant Operations	37	41	41	---	---	---
Safety/Security	4	4	4	---	---	---
Subtotal	378	419	419	---	---	---
Part-Time and Temporary Full-Time Equivalent Positions	6	6	6	---	---	---
Total Full-Time Equivalent Positions	384	425	425	---	---	---

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to Congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the FLETC proposes the following adjustments in its FY 1990 spending ($000):

Object Class	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9 Total Personnel Compensation	14,615	335	(203)	14,747
12.0 Total Benefits	2,500	51	(45)	2,506
13.0 Benefits Former Personnel	---	---	---	---
21.0 Total Travel	1,464	(23)	(38)	1,403
22.0 Total Transportation	87	---	36	123
23.1 GSA Rent	---	---	---	---
23.2 Other Rent	471	---	---	471
23.3 Total Communications and Utilities	2,285	179	164	2,628
24.0 Printing	273	(6)	102	369
25.0 Total Other Services	6,681	522	303	7,506
26.0 Total Supplies	3,904	(170)	(319)	3,415
31.0 Total Equipment	1,878	453	---	2,331
32.0 Lands and Structures	---	---	---	---
33.0 Investments and Loans	---	---	---	---
41.0 Grants, Subsidies	---	---	---	---
42.0 Insurance Claims	---	---	---	---
44.0 Refunds	---	---	---	---
TOTAL	34,158	1,341	---	35,499
Activity				
Law Enforcement Training	21,205	1,269	(261)	22,213
Plant Operations	11,709	67	261	12,037
State and Local Training	1,244	5	---	1,249
TOTAL	34,158	1,341	---	35,499

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

Explanation of Congressional Action

The FY 1990 Center appropriation included additional funding above the President's budget. The increase was for the following items:

Maintain Current Levels and equipment	$ 473,000
Artesia Plant Operations	1,150,000
Marana Operations	219,000
Total	$1,842,000

In addition to the above, Gramm-Rudman-Hollings reductions of $501,000 reduced funded levels in the following areas:

Law Enforcement Training	($325,000)
Plant Operations	($159,000)
State and Local Training	($17,000)
Total	($501,000)

Explanation of Reprogrammings

Due to changes in cost estimates, the Center proposes to adjust the FY 1990 programs submitted to the Congress in the FY 1990 budget by reprogramming funds internally. The net effect is an increase in the Plant Operations activity of $261,000 and a corresponding decrease in Law Enforcement Training activity. The major reason for this reprogramming is to more accurately reflect the actual costs of the Center's operations, primarily in the area of increased contractual costs.

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

In FY 1991, funding requirements for the Center are projected to be $36,727,000. Total increases of $2,444,000 are offset by $1,216,000 in program reductions and nonrecurring expenses; resulting in a net increase of $1,228,000 over the FY 1990 funding level of $35,499,000.

PROGRAM CHANGES

Total Requested Program Changes.....$ 710,000

The program changes requested for FY 1991 will improve the Center's ability to provide training in the critical area of financial fraud and to increase the plant operations to the necessary level.

1. Financial Fraud Institute.....$1,001,000

The Financial Fraud Institute (FFI) will serve and support all occupational components involved in the financial investigative community, i.e., investigators, auditors, analysts, prosecutors, and regulatory personnel devoted to the detection and elimination of fraud. The FFI will play a proactive role through liaison with the various elements of the system and special colloquies to verify training needs and through the training of personnel, with the most advanced equipment, investigative techniques, and specialty skills needed to insure that investigators are prepared to meet the demands of criminal investigations involving the dynamic financial environment. State-of-the-art training will be provided by this major undertaking. Training will include topics such as: money laundering, assets removal and forfeiture, link analysis, and execution of a search warrant in an automated environment. In addition to the traditional cost benefits derived from a centralized facility, this new organization will give us the ability to react timely to future financial training needs with subject matter experts working in efficient centralized environment.

The funding for this program increase by object class is as follows:

Travel	$ 10,000
Rent, Communications & Utilities	$ 101,000
Printing	$ 14,000
Other Services	$ 220,000
Materials & Supplies	$ 136,000
Equipment	$ 520,000
Total	$1,001,000

2. Artesia Plant Operations.....$225,000

The Center's satellite facility at Artesia, New Mexico, is a government-owned site. As such, the Center must provide for the plant operations of the facility. Plant operations include items such as: FTS/telephone service, logistical contracts, utilities, materials/supplies and equipment. The Congress provided $1,150,000 in FY 1990 for this purpose. As the training workload increases in FY 1991, it is necessary to increase the funding.

The funding for this program increase by object class is as follows:

Other Services (contracts)	$ 125,000
Equipment	$ 100,000
Total,	$ 225,000

3. Program Reductions to Offset Pay Costs and Other Absorptions.....($516,000)

A total of $1,218,000 is required to maintain current levels. The request includes only $702,000, therefore, a reduction is necessary to absorb the difference. The absorption is made in the following areas:

ACTIVITY	CATEGORY	AMOUNT
Law Enforcement Training	Basic Training	$258,000
Plant Operations	Services, Supplies, Equipment	247,000
State & Local Training	Services	11,000
Total		$516,000

OTHER CHANGES

Total Other Changes.....$ 518,000

Increases necessary to maintain current levels.....$1,218,000

1. Annualization of January 1990 Pay Act Increases.....$ 152,000

   This amount represents one-quarter of the FY 1990 base amount for the January 1990 pay raise of 3.6 % which was effective for three-quarters of the year in FY 1990. The amount reflected includes $19,000 for associated benefits.

2. Increased Cost for Proposed FY 1991 Pay Raise.....$ 448,000

   This amount reflects the cost for three-quarters of the year for a proposed 3.5% pay raise in FY1991. It also includes $68,000 for associated benefits.

3. Increased Cost for EX/SES Pay Raise.....$ 30,000

   This amount reflects the cost increases pursuant to P.L. 101-194 for the Center's two SES employees. It also includes $5,000 for associated benefits.

4. Increased Cost for Additional Compensable Day.....$ 64,000

   This amount reflects the increased cost of salaries for one additional compensable day in FY 1991. It also includes $7,000 for associated benefits.

5. Increased Cost of Health Insurance.....$ 88,000

   The Office of Personnel Management (OPM) projects a general increase of 15% for agency contributions to employee health benefits. The amount was derived by inflating the FY 1990 base of $586,000 by the expected 15% increase.

6. Increased Cost of Workers' Compensation.....$ 2,000

   This increase represents the actual 1989 Workers' Compensation final billing that will be paid in FY 1991 over that budgeted for FY 1990.

7. Increased Cost of Other Benefits.....$ 34,000

An increase of 4.2% has been applied to the FY 1990 base of $789,000.

8. Increased Cost of Travel and Transportation of Persons.....$ 80,000

GSA estimates an increase of 6.5% in per diem and motor pool costs. The FY 1990 base of $937,000 was inflated by the expected 6.5% increase. Additionally, an increase of 4.2% has been applied to the FY 1990 base of $466,000 for all other travel expenses.

9. Increased Cost of Transportation of Things.....$ 5,000

An increase of 4.2% has been applied to the FY 1990 base of $123,000.

10. Increased Cost of Rent, Communications and Utilities.....$ (301,000)

This represents a net adjustment consisting of the following items:

ITEM	FY 1990 BASE	INFLATION FACTOR	INCREASE
FTS	880,000	(387,000)	(387,000)
Postage	191,000	0	0
Rent	471,000	4.4%	21,000
All Other	1,557,000	4.2%	65,000
Total			(301,000)

The FTS savings is attributed to the conversion to the FTS 2000 System.

11. Increased Cost of Printing and Reproduction.....$ 26,000

The Government Printing Office (GPO) projects a 7% increase in printing and reproduction costs. The amount was derived by inflating the FY 1990 base of $369,000 by the expected 7% increase.

12. Increased Cost of Other Services.....$ 322,000

Increases reflect the conversion costs to the new payroll system in FY 1991 of $10,000 and an increase of 4.2% has been applied to the FY 1990 base of $7,425,000 for all other services.

13. Increased Cost of Materials and Supplies.....$ 168,000

This represents the following increases:

ITEM	FY 1990 BASE	INFLATION FACTOR	INCREASE
GSA Supplies	984,000	6.5%	64,000
Domestic Subscriptions	48,000	8.0%	4,000
All Other	2,383,000	4.2%	100,000

14. Increased Cost of Equipment.....$ 100,000

GSA estimates a 5% increase for vehicle purchases. The FY 1990 base of $284,000 was inflated by the expected 5% increase. Additionally, an increase of 4.2% has been applied to the FY 1990 base of $2,047,000 for all other equipment purchases.

Reductions, nonrecurring costs and savings.....$ (700,000)

1. Nonrecurring Costs.....$ (700,000)

Nonrecurring costs consists of $481,000 in one-time costs for equipment and $219,000 in one-time costs for Marana operations.

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

Standard Classification Schedule
(Direct Obligations Only $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/Decrease From FY 1990
Total number of permanent positions	450	450	450	---
Full-Time Equivalent (FTE) Workyears	384	425	425	---
Object Classification				
Personnel Compensation:				
Permanent positions	11,828	13,367	13,793	426
Positions other than permanent	500	143	141	(2)
Other personnel compensation	482	634	618	(16)
Special personal services payments	786	603	590	(13)
Total personnel compensation	13,596	14,747	15,142	395
Personnel benefits	2,790	2,506	2,690	184
Travel and transportation of persons	1,328	1,403	1,487	84
Transportation of things	320	123	128	5
Rent, communications and utilities:				
Rental payments to GSA	0	0	0	0
Rental payments to others	457	471	492	21
Other rents, communications and utilities	2,295	2,628	2,387	(241)
Printing and reproduction	118	369	402	33
Other services	5,860	7,506	7,821	315
Supplies and materials	5,235	3,415	3,633	218
Equipment	1,655	2,331	2,545	214
Lands and structures	988	2,095	0	-2,095
Insurance claims and indemnities	3	0	0	0
Refunds	1	0	0	0
Total obligations	34,646	37,594	36,727	-867
Unobligated balance lapsing	209	0	0	0
Transferred to other accounts	-2,586	-2,095	---	2,095
Obligations of prior year funds	2,095	0	0	0
Total actual obligations, proposed authorization level and budget estimate	34,364	35,499	36,727	1,228

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FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate
ES-5	1	1	1
ES-3	1	1	1
Subtotal	2	2	2
GS/GM-15	7	7	7
GS/GM-14	22	22	22
GS/GM-13	71	71	71
GS-12	76	76	76
GS-11	62	62	62
GS-10	0	0	0
GS-9	43	43	43
GS-8	8	8	8
GS-7	33	33	33
GS-6	31	31	31
GS-5	33	33	33
GS-4	20	20	20
GS-3	1	1	1
GS-2	1	1	1
Subtotal	408	408	408
Ungraded	40	40	40
Total, permanent positions	450	450	450
Unfilled positions, end-of-year	46	25	25
Total, permanent employment, end-of-year	404	425	425

FEDERAL LAW ENFORCEMENT TRAINING CENTER, SALARIES AND EXPENSES

DETAIL OF AVERAGE GRADES AND SALARIES

	Actual FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES Salary.....	76,750	79,513	94,391
Average GS grade.....	9.92	9.92	9.92
Average GS salary.....	30,560	31,660	32,768
Average salary of ungraded positions.....	25,487	26,405	27,329

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	---	---	15,000
Estimate for FY 1991	---	---	18,735

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES

(Dollars in thousands)

	ACTUALS FY 1989		AUTHORIZED LEVEL FY 1990		BUDGET ESTIMATE FY 1991		INCREASE (+) OR DECREASE (-) FOR FY 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Construction and Maintenance...	---	6,688	---	15,000	---	18,735	---	3,735	---	15,255	---	(11,520)
Unobligated balance available, SOY	---	---										
Unobligated balance available, EOY	---	13,312										
Unobligated balance lapsing	---	---										
Total appropriation, authorized level, and budget estimate	---	20,000	---	15,000	---	18,735	---	3,735	---	15,255	---	(11,520)
Permanent positions	---		---		---							

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

SUMMARY EXPLANATION OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in Thousands)

CONSTRUCTION AND MAINTENANCE

Program Changes		Perm Pos.	FTE	Amount
1. Master Plan Construction		---	---	14,955
a) Firearms Expansion	55			
b) Physical Techniques Expansion	3,200			
c) Building 66 Renovation	950			
d) Admin Computer Complex	600			
e) Building 18 Renovation	600			
f) Computer Training Renovation	400			
g) Practical Exercise Areas	50			
h) Architect & Engineering Services	125			
i) Road Improvements/Bus Shelters	600			
j) Student Center, Phase One	800			
k) Vehicle Fueling/Covered Area	200			
l) Student Center, Phase Two	1,350			
m) Classroom Building	4,750			
n) Relocate Graphics/Media Center	1,200			
o) Recreation Areas	25			
p) Walkways	50			
2. Maintenance of facilities		---	---	300
Total, Program Changes		---	---	15,255

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Other Changes		Perm Pos.	FTE	Amount
Reductions, Nonrecurring Costs and Savings:				
1. Nonrecurring Costs		---	---	(11,520)
a) Dormitory	($6,400,000)			
b) Firearms Expansion	($3,714,000)			
c) Relocate Explosives Range	($ 481,000)			
d) Driver Training & PE Area	($ 300,000)			
e) Physical Training Facility	($ 250,000)			
f) Driver/Firearms Facility	($ 200,000)			
g) Firearms Ranges	($ 175,000)			
Total, Reductions, Nonrecurring Costs and Savings		---	---	(11,520)
Total, Other Changes		---	---	(11,520)
Total increases or decreases compared with FY 1990 Authorized Level		---	---	3,735

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

The Federal Law Enforcement Training Center provides the necessary facilities, equipment and support services for conducting Basic and Advanced training for Federal law enforcement personnel of the 62 participating organizations. The Center's growth over the past 15 years has exceeded original capacities, necessitating planned expansion activities.

In FY 1991, direct obligations for the Acquisition, Construction, Improvements and Related Expenses (ACI&RE) account are estimated to be $18,735,000, which is an increase of $3,735,000 from the FY 1990 appropriation level of $15,000,000. The net increase of $3,735,000 includes a decrease for nonrecurring costs of $11,520,000 and increases of $300,000 for maintenance of facilities and of $14,955,000 for construction.

A summary of Center activities and selected workload data follows:

Construction and Maintenance Program

The ACI&RE account did not exist prior to FY 1989. From FY 1985 to FY 1988 the Center was appropriated funds for minor construction and maintenance in the Salaries and Expenses account.

In FY 1989, the Center brought on-line a new 228-bed dormitory to provide critical on-Center housing. In addition, the FY 1989 appropriation provided $20,000,000 for the acquisition of the Artesia, New Mexico facility, Master Plan Construction (in special training areas [firearms, driver and physical], expansion of the cafeteria, and initial costs associated with starting the second dormitory project), and facility maintenance.

In FY 1990, the budget provides $15,000,000 for Master Plan Construction (completion of a second 228-bed dormitory, firearms expansion, relocation of the explosives range, driver training and practical exercise areas at Marana, and physical training facility, driver/firearms facility and firearms ranges at Artesia) and facility maintenance.

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

In FY 1991, the request provides $18,735,000 to continue implementation of the Master Plan and facility maintenance. In addition to the maintenance, a total of sixteen Master Plan projects will be constructed with these funds.

With the funding requested in FY 1991, the Center will have completed all of the Phase I projects and approximately half of the Phase II projects in the Master Plan.

DEPARTMENT OF THE TREASURY
FEDERAL LAW ENFORCEMENT TRAINING CENTER

Federal Funds

General and Special Funds:

ACQUISITION, CONSTRUCTION, IMPROVEMENTS, AND RELATED EXPENSES

For expansion of the Federal Law Enforcement Training Center, for acquisition of necessary additional real property and facilities, and for ongoing maintenance, facility improvements, and related expenses, $18,735,000, to remain available until expended. (Treasury Department Appropriations Act, 1990)

Federal Law Enforcement Training Center, Acquisition, Construction, Improvements and Related Expenses

SELECTED WORKLOAD DATA
(Dollars in thousands)

Activity and Principal Workload Factors	1989 Actual		1990 Budget		1991 Estimate		Percent Increase 1991 over 1990
	# of Projects	Amount	# of Projects	Amount	# of Projects	Amount	Amount
I. Construction and Maintenance							
A. Master Plan	5	10,000	7	11,520	16	14,955	30%
B. Maintenance	N/A	3,000	N/A	3,480	N/A	3,780	9%
C. Artesia Start-Up	17	7,000	0	0	0	0	N/A
TOTAL	22	20,000	7	15,000	16	18,735	25%

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FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full-Time Equivalent Positions)

	Actual 1989	Estimated 1990	Estimated 1991	Increase/Decrease for 1991 Total Changes	Increase/Decrease for 1991 Program Changes	Increase/Decrease for 1991 Other
Instructors	0	0	0	0	0	0
Stenographers, typists and secretaries	0	0	0	0	0	0
Training Support	0	0	0	0	0	0
Other Administrative Employees	0	0	0	0	0	0
Plant Operations	0	0	0	0	0	0
Safety/Security	0	0	0	0	0	0
Subtotal	0	0	0	0	0	0
Part-Time and Temporary Full-Time Equivalent Positions	0	0	0	0	0	0
Total Full-Time Equivalent Positions	0	0	0	0	0	0

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to Congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the FLETC proposes the following adjustments in its FY 1990 spending ($000):

Object Class	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9 Total Personnel Compensation.....	---	---	---	---
12.0 Personnel Benefits.....	---	---	---	---
13.0 Benefits Former Personnel.....	---	---	---	---
21.0 Total Travel.....	---	---	---	---
22.0 Total Transportation of Things.....	---	---	---	---
23.1 GSA Rent.....	---	---	---	---
23.2 Other Rent.....	---	---	---	---
23.3 Total Communications and Utilities.....	---	---	---	---
24.0 Printing.....	---	---	---	---
25.0 Total Other Services.....	---	---	---	---
26.0 Total Supplies.....	---	---	---	---
31.0 Total Equipment.....	---	---	---	---
32.0 Lands and Structures.....	9,880	5,120	---	15,000
33.0 Investments and Loans.....	---	---	---	---
41.0 Grants, Subsidies.....	---	---	---	---
42.0 Insurance Claims.....	---	---	---	---
44.0 Refunds.....	---	---	---	---
TOTAL.....	9,880	5,120	---	15,000
Activity				
Construction & Maintenance.....	9,880	5,120	---	15,000
TOTAL.....	9,880	5,120	---	15,000

January 29, 1990

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FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

Explanation of Congressional Action

The FY 1990 Center Appropriation included additional funding above the President's budget. The additional funding was for specific Master Plan projects, as follows ($000):

Glynco:	
Firearms Expansion	$3,714
Relocate Explosives Range	481
Subtotal	$4,195
Marana:	
Driver Training and Practical Exercise Area	$ 300
Subtotal	$ 300
Artesia:	
Physical Training Facility	$ 250
Driver/Firearms Facility	200
Firearms Ranges	175
Subtotal	$ 625
Total	$5,120

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

In FY 1991, funding requirements for the FLETC are projected to be $18,735,000. Total increases of $15,255,000 are offset by $11,520,000 in program reductions and nonrecurring expenses; resulting in a net increase of $3,735,000 over the FY 1990 funding level of $15,000,000.

PROGRAM CHANGES

Total Requested Program Changes.....$15,255,000

1. Master Plan Construction.....$14,955,000

A program increase of $14,955,000 is requested in FY 1991 to continue the implementation of the Center's Facilities Master Plan. The Master Plan, which was presented to the Congress last year, requests a total of approximately $86 million. Through FY 1990, the Congress has appropriated approximately $21.5 million for this activity.

The additional resources requested will fund the following projects:

Glynco:

Firearms Expansion	$ 55,000
Physical Techniques Expansion	3,200,000
Building 66 Renovation	950,000
Admin Computer Complex	600,000
Building 18 Renovation	600,000
Computer Training Renovation	400,000
Road Improvements/Bus Shelters	600,000
Student Center, Phase I	800,000
Vehicle Fueling/Covered Area	200,000
Student Center, Phase II	1,350,000
Classroom Building	4,750,000
Relocate Graphics/Media Center	1,200,000
Subtotal	$14,705,000

Artesia:

Practical Exercise Areas	$ 50,000
Architect and Engineering Services	125,000
Recreation Areas	25,000
Walkways	50,000
Subtotal	$ 250,000
TOTAL	$14,955,000

The funding for this program increase by object class is as follows:

Equipment	$ 1,000,000
Lands and Structures	13,955,000
TOTAL	$14,955,000

2. Maintenance of facilities.....$ 300,000

A program increase of $300,000 is requested in FY 1991 to provide maintenance funding for the facility at Artesia, New Mexico. Based on the experience gained at the Glynco, Georgia facility, maintenance costs per year average $2 per square foot. The Artesia facility has approximately 150,000 square feet of space, therefore, $300,000 is requested for the maintenance. These funds cover items such as: replacing roofs, painting interiors and exteriors of entire buildings, replacing single-pane windows with energy-efficient thermal-pane windows, repairing/replacing heating/air conditioning/ventilation systems, etc.

The funding for this program increase by object class is as follows:

Lands and Structures	$ 300,000

OTHER CHANGES

Total other changes.....($11,520,000)
Reductions, nonrecurring costs and savings.....($11,520,000)

1. Nonrecurring one-time expenses.....($11,520,000)

Nonrecurring one-time expenses consist of the following Master Plan projects:

Glynco:

Dormitory	($6,400,000)
Firearms Expansion	($3,714,000)
Relocate Explosive Range	($ 481,000)
Subtotal	($10,595,000)

Marana:

Driver Training & Practical Exercise Areas	($ 300,000)
Subtotal	($ 300,000)

Artesia:

Physical Training Facility	($ 250,000)
Driver Training/Firearms Facility	($ 200,000)
Firearms Ranges	($ 175,000)
Subtotal	($ 625,000)

TOTAL	($11,520,000)

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

Standard Classification Schedule

(Direct Obligations Only $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/Decrease From FY 1990
Total number of permanent positions	---	---	---	---
Full-Time Equivalent (FTE) Workyears	---	---	---	---
Object Classification				
Personnel Compensation:				
Permanent positions	---	---	---	0
Positions other than permanent	---	---	---	0
Other personnel compensation	---	---	---	0
Special personal services payments	---	---	---	0
Total personnel compensation	---	---	---	0
Personnel benefits	---	---	---	0
Travel and transportation of persons	---	---	---	0
Transportation of things	---	---	---	0
Rent, communications and utilities:				
Rental payments to GSA	---	---	---	0
Rental payments to others	---	---	---	0
Other rents, communications and utilities	---	---	---	0
Printing and reproduction	---	---	---	0
Other services	---	---	---	0
Supplies and materials	---	---	---	0
Equipment	741	---	1,000	1,000
Lands and structures	5,947	15,000	17,735	2,735
Insurance claims and indemnities	---	---	---	0
Total obligations	6,688	15,000	18,735	3,735
Unobligated balance lapsing	---	---	---	0
Transferred to other accounts	---	---	---	0
Obligations of prior year funds	---	13,312	---	(13,312)
Total actual obligations, proposed authorization level and budget estimate	6,688	28,312	18,735	(9,577)

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate
ES-5	0	0	0
ES-3	0	0	0
Subtotal	0	0	0
GS/GM-15	0	0	0
GS/GM-14	0	0	0
GS/GM-13	0	0	0
GS-12	0	0	0
GS-11	0	0	0
GS-10	0	0	0
GS-9	0	0	0
GS-8	0	0	0
GS-7	0	0	0
GS-6	0	0	0
GS-5	0	0	0
GS-4	0	0	0
GS-3	0	0	0
GS-2	0	0	0
Subtotal	0	0	0
Ungraded	0	0	0
Total, permanent positions	0	0	0
Unfilled positions, end-of-year	0	0	0
Total, permanent employment, end-of-year	0	0	0

FEDERAL LAW ENFORCEMENT TRAINING CENTER, ACQUISITION, CONSTRUCTION, IMPROVEMENTS AND RELATED EXPENSES

DETAIL OF AVERAGE GRADES AND SALARIES

	Actual FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES Salary.....	0	0	0
Average GS grade.....	0	0	0
Average GS salary.....	0	0	0
Average salary of ungraded positions.....	0	0	0

WEDNESDAY, MARCH 7, 1990.

U.S. SAVINGS BOND DIVISION

WITNESSES

JERROLD B. SPEERS, EXECUTIVE DIRECTOR
W. LORN HARVEY, DEPUTY EXECUTIVE DIRECTOR
JAMES R. WYNN, DIRECTOR, PROGRAM SUPPORT
JAMES GIANFAGNA, DIRECTOR, MARKETING AND COMMUNICATIONS
REBECCA D. BROWN, FINANCIAL MANAGER
EDWIN A. VERBURG, DIRECTOR, FINANCIAL SERVICES DIRECTORATE, DEPARTMENT OF THE TREASURY

Mr. ROYBAL. The committee will now hear from the Savings Bond Division.

Mr. SPEERS. Thank you, Mr. Chairman. My name is Jerry Speers. I am Executive Director of the Savings Bonds Division. I would like to submit a statement for the record, if I may.

Mr. ROYBAL. All right. Without objection, it will be the order.

[The information follows:]

DEPARTMENT OF THE TREASURY
U. S. SAVINGS BONDS DIVISION

Introductory Statement of Jerrold B. Speers
Executive Director, U. S. Savings Bonds Division
For Presentation to the Subcommittee on Appropriations

Mr. Chairman and members of the Committee, I am pleased to be here today to present the fiscal year 1991 appropriation request of the United States Savings Bonds Division. Accompanying me today are Deputy Executive Director Lorn Harvey; Director of Program Support James Wynn; Director of Marketing and Communications James Gianfagna; and our Financial Manager Rebecca Brown.

The cornerstone of the U. S. Savings Bonds Division is its mission to increase the sale and retention of savings bonds. The key to accomplishing this mission is our ability to effectively motivate consumers and stimulate growth in savings bonds sales through promotional campaigns and advertising programs.

It is estimated that over the life of the bonds, the government saves approximately $70 million in present value borrowing costs for every billion dollars of bonds sold. In addition, the Savings Bonds Program provides, at competitive rates, a safe and effective means for millions of Americans to save, and broadens public ownership of the National debt.

The Savings Bonds Program is fortunate because much of its success is due to volunteer support. Active national and local volunteer committees perform vital and outstanding services for the Division in the fields of banking, media, labor and industry. The efforts of the Division's field personnel are multiplied through the directed activities of our volunteers.

The Division promotes sales in both the payroll savings and over-the-counter markets. Fiscal Year 1989 sales exceeded $7.7 billion and the total amount of Bonds outstanding reached $115.7 billion, the highest in the history of the Bond program. Currently over $118 billion of savings bonds are held by the American public, another historical high.

For fiscal year 1991, the Division is requesting a total budget of $20,479,000 and 252 FTE positions. This is an increase of $1,475,000 from the resource level provided for FY 1990 with no increase in FTE positions. This request includes a $900,000 program increase and $769,000 to maintain current levels, offset by $194,000 in program reductions for absorption of pay and other costs.

Savings bonds sold in FY 1989 reduced borrowing costs by $540 million in present value terms. This was 28 times more than our FY 1989 appropriation request of $19 million. In FY 1991, we expect dollar sales to be $8.9 billion, resulting in present value savings of $623 million.

In the last few years, the Division has taken several new marketing approaches in diversifying its promotional activities. During fiscal year 1989 we worked with the Bureau of Public Debt to implement the Regional Delivery System (RDS) for the entire Cleveland Federal Reserve District. Under that system, Bonds purchased at banks are issued and mailed to purchasers by the Federal Reserve, rather than by local banks. The RDS system is planned to be in place nationwide by the end of fiscal year 1993. We also took initial steps in preparing for the January 1, 1990, introduction of the Education Savings Bond Program which was enacted by the Congress in FY 1989. Under certain circumstances, it permits the interest earned on Bonds issued after that date to be free of Federal taxes when applied to the cost of a higher education. For the first time, such Bonds would be entirely free of all taxes -- Federal, State, and local. This is a major and important change in savings bonds benefits, and will require extensive public information and education to encourage savings and help individuals pay for the costs of higher education.

The FY 1991 resource requirements include funds to continue these initiatives as well as fund a field sales force to carry out promotional activities, and an advertising program to increase public awareness through the development and distribution of public service advertising materials. Our objectives will be to continue to increase both over-the-counter and payroll savings sales, and to make the most cost effective use of existing staff and volunteer resources.

We will encourage more publications and broadcast stations to use public service advertising to reinforce public awareness of the benefits and features of savings bonds.

Mr. Chairman and members of the Committee, this concludes my statement. I will be happy to respond to any questions you or members of the committee may have.

OPENING STATEMENT

Mr. SPEERS. Mr. Chairman and Members of the committee, I am pleased to be here today to present the Fiscal Year 1991 budget request for the United States Savings Bonds Division. Accompanying me today are Deputy Executive Director, Lorn Harvey; Director of Program Support, Jim Wynn; Director of Marketing and Communications, Jim Gianfagna; and our Financial Manager, Rebecca Brown. All of the witnesses have appeared before this committee in the past.

The cornerstone of the U.S. Savings Bonds Division is its mission to increase the sale and retention of savings bonds. The key to accomplishing this mission is our ability to effectively motivate consumers and stimulate growth in savings bonds sales through promotional campaigns and advertising programs.

The Division promotes sales in both the over-the-counter and payroll savings markets. Fiscal Year 1989 sales exceeded $7.7 billion, and the total amount of bonds outstanding reached $115.7 billion, the highest in the history of the bond program. There are currently over $118 billion of savings bonds being held by the American public, another historical high.

For Fiscal Year 1991, the Division is requesting a total budget of $20,479,000 and 252 FTE positions. This budget provides resources to continue our efforts to promote the new Education Bond Program and inform consumers of its features and benefits. This program allows the interest on bonds purchased after January 1, 1990, to be tax free when applied to higher education costs.

The budget also funds a field sales force to carry out promotional activities and make extensive sales calls in support of the regionalized delivery of over-the-counter savings bonds. This system provides for the centralized issuance of bonds by the Federal Reserve, rather than by local banks.

It is estimated that over the life of savings bonds, the Government saves approximately $70 million in present value borrowing costs for every billion dollars sold. Therefore, savings bonds sold in Fiscal Year 1989 reduced the Government's borrowing costs by $540 million in present value terms. In Fiscal Year 1991, we expect dollar sales to be $8.9 billion, resulting in present value savings of $623 million.

During Fiscal Year 1991, our main objective will be to continue to increase both over-the-counter and payroll savings sales. We will make the most cost effective use of existing staff and volunteer resources while continuing to encourage more publications and broadcast stations to use our public service announcements to reinforce public awareness of the benefits and features of savings bonds.

Mr. Chairman and Members of the committee, this concludes my statement. I will be happy to respond to questions you or Members of the committee may have.

DEBT COST SAVINGS

Mr. ROYBAL. Mr. Speers, will you please repeat the figures again with regard to savings? I think you made mention of $70 million.

Mr. SPEERS. Yes, sir. The Treasury Department estimates that, compared to marketable debt, the sales of savings bonds save the cost of issuing and carrying the debt by $70 million for every $1 billion sold.

Mr. ROYBAL. All right. Now I noticed that your budgetary request is much higher than last year, that you have increased it by $1.5 million. Even with that increase, will the savings be the same or more than at the present time?

Mr. SPEERS. The rate of the savings would be the same, Mr. Chairman. The total amount of savings, however, would increase because of the purpose for which the increase in the appropriations is requested. The bulk of that increase is for education savings bonds brochures. With the dissemination of that information, we would estimate that there would be an increase of sales, and therefore we would have an increase in savings of the cost involved.

PRODUCTIVITY AND EMPLOYEES

Mr. ROYBAL. All right. Now how do you measure the productivity of your employees, and how do you know that the cost of operating the Savings Bond Division actually returns dividends to the Government that exceed these costs?

Mr. SPEERS. There is a formula which the Treasury Department uses to estimate the cost of issuing savings bonds, and that formula does compare that to the marketable debt. As I mentioned, $70 million per billion dollars of savings bonds sold is saved, compared to the cost of the marketable debt. The productivity of the Division and its staff is measured by the number of major payroll savings accounts that we have—that is both corporate and Government-wide—and the number of accounts that are contacted during the year compared to the Division's budget and its staff resources.

BUDGET INCREASE

Mr. ROYBAL. The increase that you are requesting of approximately $1.5 million over last year will be used for what specific purpose now?

Mr. SPEERS. The bulk of it, $900,000 will be used to print 60 million educational bond brochures. Those brochures would describe the new feature of savings bonds that was enacted by the Congress in 1988, and went into effect on January 1 of this year.

Mr. ROYBAL. That $900,000 will be for your sales promotion.

Mr. SPEERS. That is correct.

SALES AND PROMOTION

Mr. ROYBAL. Based on your experience, do you know that that will produce revenues in excess of costs?

Mr. SPEERS. That is correct, sir.

Mr. ROYBAL. And what would that profit be, if we call it profit?

Mr. SPEERS. It is difficult to attribute a specific amount of sales to that particular promotional piece, or to that particular benefit of savings bonds. We are predicting $8.9 billion in total sales for 1991.

Mr. ROYBAL. That is probably based again on the experience that you have had with the money that you invested for the purposes in the past.

Mr. SPEERS. That is correct. And that would——

Mr. ROYBAL. And based on that, you expect that there will be $8.9 billion.

Mr. SPEERS. Billion dollars in sales.

Mr. ROYBAL. Why do you think you are successful in this kind of promotion? Is it because of the interest rates that you pay; because of your excellent promotion techniques; a combination of both? What is it?

Mr. SPEERS. Well, Mr. Chairman, I do think that it is a combination of both. The savings bonds program has undergone a number of changes in the 50 years of its history. Perhaps the most important change was made in 1982 when we developed a competitive rate—a variable market-based-rate for savings bonds. And that rate provides a guaranteed minimum of 6 percent if the bonds are held for five years, and also provides that if the bond is held for five years that it will pay at maturity a market-based-rate based on five year marketable securities over the life of that bond.

INTEREST RATES

Mr. ROYBAL. What does that mean now? You are guaranteed 6 percent if you hold it for five years. So I held the bond for five years. What do I expect at the end of the five years?

Mr. SPEERS. You will either get 6 percent, or you will get an average of the six-month rates that apply to that bond for those five years, whichever is higher.

Mr. ROYBAL. The entire five years.

Mr. SPEERS. Over the entire five years. That is correct. The rates are adjusted every May 1 and November 1. And the adjustments are based upon the five year marketable securities for the previous six months, an average of what those securities are paying.

Mr. ROYBAL. All right. Supposing that I have bought bonds five years ago, and that bond was due the first of next month. What would my approximate income under this interest rate be, based on the last five years projection?

Mr. SPEERS. We would look at the rates that were fixed every six months—every May 1 and November 1—and take an average of those 10 rates. And if the average was above 6 percent, you would get what that average was. If the average was below 6 percent, you would get the minimum of 6 percent.

ADVANTAGES OF SAVINGS BONDS

Mr. ROYBAL. What I am trying to clear in my mind is why would I be interested in investing something that guarantees me a minimum of only 6 percent if I can go out into somewhere else and get it at 8 percent?

Mr. SPEERS. Well, there are some other advantages of——

Mr. ROYBAL. All right.

Mr. SPEERS [continuing]. Savings bonds——

Mr. ROYBAL. That is what we want to know.

Mr. SPEERS [continuing]. One of which is the ease of purchase. They can be purchased through a payroll savings plan, and this is a very large portion of the number of people that do purchase bonds. There are no fees or commissions that an individual has to

pay to purchase or redeem a savings bond. The bonds are free from state and local income taxes, and that is a very large selling point if you are in a state or city such as New York City where that would increase the effective yield of your savings bond.

Mr. ROYBAL. All right. Again on that 6 percent rate?

Mr. SPEERS. Again this is a minimum rate.

Mr. ROYBAL. I understand that. And it is not subject to local or state income taxes?

Mr. SPEERS. State or local income tax.

Mr. ROYBAL. State or local income tax.

Mr. SPEERS. It is subject to Federal.

Mr. ROYBAL. It is subject to Federal income tax.

Mr. SPEERS. That is correct.

Mr. ROYBAL. All right.

Mr. SPEERS. Unless it is used for the new feature, and that is why we are heavily promoting the education feature of savings bonds.

Mr. ROYBAL. So actually the only advantage would be that it would be taken from my payroll and I would not have to bother about going anyplace to buy these bonds. It would be automatically taken out and it is much easier, I admit. But for the average saver, is that an incentive enough to invest in 6 percent when you can get 8 someplace else?

Mr. SPEERS. Certainly not in and of itself, but it is not really an investment in just 6 percent, either, because the rates have over the past 10 years been much higher. They have been as high as 11.07 percent, and the current rate is 6.98 percent. So it is not a matter of investing solely at 6 percent; it is a matter of having a guaranteed minimum if the market happens to fall.

AVERAGE INTEREST RATE

Mr. ROYBAL. Well, I started off with this questioning by asking you what I would be receiving if I had bought $1 million, let us say, worth of bonds five years ago. What would I have today?

Mr. SPEERS. Well, I can give you a——

Mr. ROYBAL. Six point nine percent interest?

Mr. SPEERS. No. You would have—I can give you a listing of the six month rates that applied since 1985, and what you would have would be an average of those rates.

Mr. ROYBAL. All right. What are those 10 rates, and what was that average? If we can put that in the record, it will answer the question.

Mr. SPEERS. Okay. If you bought the bond in May of 1984, let us say, for the six months following that, you would have 9.95 percent. The next six months was 10.94 percent; then 9.49 percent; 8.36 percent; 7.02 percent; 6.06 percent; 5.84 percent. That was the rate from May 1987 to October, 1987. And these all reflect the market changes in rates. The next six month period was 7.17 percent; the next 6.9 percent; 7.35 percent; 7.81 percent; and the current rate of 6.98 percent.

Mr. ROYBAL. And what is——

Mr. SPEERS. If you take an average of all of those, and if my Deputy's calculator here is correct, Mr. Chairman, we would have approximately 8.25 percent. So it is a competitive return.

Mr. ROYBAL. Well, that is the answer I was seeking, and that makes sense.

EDUCATION BOND FEATURES

Mr. SPEERS. Now, I would also point out with the education feature that has gone into effect beginning this year that the bonds would be free from Federal income tax, as well as state and local, if they are used for higher education. And there are certain qualifications that are put on the income levels of the individuals that would be using it.

Mr. ROYBAL. Which is an incentive then for a parent to invest in that awaiting the time when that child of his would go to college.

Mr. SPEERS. There have been financial writers that have pointed out that with this new feature attached to the savings bonds, given the current rate that is being paid on savings bonds of 6.98 percent, that if the individual were in a 28 percent tax bracket, they would have to find an investment paying 9.7 percent, which would be a taxable investment, to equal the investment on the savings bonds. So it is an incentive.

Mr. ROYBAL. And the $900,000 will be used for the purpose of explaining all of that to the prospective buyer of bonds.

Mr. SPEERS. That is correct. It would be used specifically to point out the education benefit feature. And we do have a copy of this year's brochure, Mr. Chairman, that we would be happy to leave with you. And because it is a new feature and major feature of savings bonds, we have developed that brochure specifically on that particular feature.

Mr. ROYBAL. This to me makes a lot of sense, and I think your program then, based on this alone, will be successful.

Mr. SPEERS. Well, we were very happy to get that feature from the Congress, Mr. Chairman.

Mr. VERBURG. Mr. Chairman?

Mr. ROYBAL. Yes, sir.

OTHER SAVINGS BOND BENEFITS

Mr. VERBURG. In addition to the interest rate benefits and the other benefits that have been mentioned, such as the educational savings, you do have the intangible benefit of pride in investing in the U.S. Many folks do buy U.S. bonds with that in mind. You also have, of course, the additional investment from U.S. citizens versus the foreign investment. And I think there are a number of people who do consider that when they invest. And we are interested in complementing the interest return, as well as the intangible return.

SALES AND REDEMPTION RATIO

Mr. ROYBAL. Now, no doubt there are redemptions also. What is the current ratio between saving bond sales and redemptions in numbers of bonds and dollar amounts? Can that be supplied for the record?

Mr. SPEERS. Yes, Mr. Chairman. We certainly can. We can give you the dollar amount at the present time. I am not sure if we have the ratio at this point, but we can certainly provide that for the record. The dollar amount for the past year—redemptions for the first quarter of Fiscal Year 1990 were $1.62 billion, and that is 1 percent lower than the comparable period for Fiscal Year 1989.

[The information follows:]

For the first quarter of fiscal year 1990, sales were ahead of redemptions with 24 million pieces being sold as compared to 15 million pieces being redeemed. Dollar sales for the first quarter of fiscal year 1990 were $1.72 billion, as compared to redemptions of $1.62 billion for the same period. In both cases, with pieces and dollars, sales are ahead of redemptions. For fiscal year 1989, the total number of pieces sold was 96 million, while 65 million pieces were redeemed. Dollar sales for fiscal year 1989 were $7.72 billion, and redemptions were $7.25 billion.

Mr. ROYBAL. Is that reflected then in the fact that interest rates are going up? As interest rates go up, the savings rates also go up. The redemptions here are less, therefore I believe them to be less because they are satisfied with the interest rate.

Mr. SPEERS. I think that could be a fair statement, Mr. Chairman. Certainly it is indicative that savings bonds are a competitive investment with other investments that might be available on the market.

Mr. ROYBAL. Because if they are competitive and they are, as you have stated, I do not think that is as widely known as it should be.

Mr. SPEERS. Well, we would agree that we do not have the resources to advertise the bonds as a private company might advertise its product.

Mr. ROYBAL. But you will have $900,000 for that purpose for the next year.

Mr. SPEERS. That is correct.

Mr. ROYBAL. That is a lot of money to advertise.

Mr. SPEERS. That is a lot of money to——

Mr. ROYBAL. All right, sir.

Mr. SPEERS [continuing]. Create a brochure.

Mr. ROYBAL. So I think you will be able to actually do what is necessary to bring a change.

Mr. SPEERS. It certainly is a start, Mr. Chairman. What I was suggesting at the time when I mentioned advertising as a corporation might advertise a new product, however I do not believe that we would have the resources, nor are we requesting the resources. But there would be hundreds and millions of dollars that a company might put into a new product and we certainly do not have the resources to do that.

VOLUNTEER SUPPORT

Mr. ROYBAL. Do you get any free assistance from anyone in promoting the sale of bonds?

Mr. SPEERS. Yes, indeed. This is one of the remarkable features and aspects of this program, and perhaps unique in the U.S. Government, and that is that we have a tremendous amount of support from private industry in promoting U.S. savings bonds. We have a national volunteer committee which is made up this year of 52 chief executive officers of some of the largest corporations in the United States. The chairman of that committee this year is Mr.

Alan Jacobson, who is CEO of 3M company. He and his company are doing a tremendous job in promoting U.S. savings bonds for the Government.

Mr. ROYBAL. With the $900 million that you will be spending for this purpose next year, plus all the free help that are getting——

Mr. SPEERS. Nine hundred thousand, Mr. Chairman, but we will take it.

COST EFFECTIVENESS OF PROGRAM

Mr. ROYBAL. Nine hundred thousand. Excuse me. It is still a sizeable amount, and with all the other help you will be getting, I think you just cannot help but succeed.

Mr. SPEERS. Well, thank you, Mr. Chairman. We certainly hope to, and certainly intend to. With the $20 million that we are requesting for our budget, we feel that we are extremely cost effective. Going back to the $70 million per billion sold that we save each year, the Federal Government last year saved over half a billion dollars in borrowing costs.

Mr. ROYBAL. Mr. Speers, I would like to thank you and your colleagues for your testimony. This is a subject that is most interesting. Other Members of the committee have some questions they would like to submit to you to be answered for the record.

Mr. SPEERS. Thank you very much, Mr. Chairman. We will be happy to do so.

Mr. ROYBAL. All right. The meeting is now adjourned.

[Questions for the record follow:]

Question for the Record from Congressman Skeen

COST OF PROMOTIONAL PROGRAM

Mr. SKEEN. What percentage of your budget is directed to advertisement, including production and direct promotional costs?

Mr. SPEERS. The Division has budgeted $3,223,000 or 17 percent of the Fiscal year 1990 budget on advertising and direct promotional costs. In fiscal year 1991, $4,231,000 or 21 percent of the budget is directed to advertisement and direct promotional costs. The fiscal year 1991 amount includes the additional $900,000 requested to promote the Education Bond Program.

REACTIONS TO EDUCATION BOND PROGRAM

Mr. SKEEN. What has been the overall response from Americans to the Series EE bonds for educational purposes?

Mr. SPEERS. The public's interest in the new Education Bond Program has been very strong since the tax benefit was first announced in mid-1989. Thousands of mail requests for detailed information are being received each month in response to media stories in a variety of consumer publications such as Changing Times, Family Circle, Good Housekeeping and many daily and weekly newspapers. The education benefit is attracting major attention in sales campaigns being held across the country. As the benefit accrues only to bonds sold on or after January 1, 1990, it is as yet early to assess that impact on actual sales.

MARKETING PROPOSALS

Mr. SKEEN. What other proposals has your Division been contemplating to remain competitive with other investments?

Mr. SPEERS. The Division has consistently sought innovative marketing techniques and is concentrating this year on marketing the new Education Bond feature. We have produced and are distributing 50 million pieces explaining and promoting the education feature alone, have produced articles and news stories for editors and financial writers, are requesting cooperation in distributing the information from companies marketing products to young families, from grocery chains, from utilities,

from the Social Security Administration, from the PTA, and from other organizations including Congress itself. We will continue to monitor changes in the market that may affect the appeal or sales of bonds, and propose changes to the savings bond product as needed to compensate for marketplace challenges.

[The justifications follow:]

DEPARTMENT OF THE TREASURY

Administering the Public Debt
U.S. Savings Bonds Division

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	281	252	19,004
FY 1991 Estimate	281	252	20,479

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in Thousands)

	ACTUALS		AUTHORIZED LEVEL		BUDGET ESTIMATE		INCREASE (+) OR DECREASE (-) FOR FY 1991					
	FY 1989		FY 1990		FY 1991		TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
1. Executive Direction and Administration	34	2,097	35	2,236	35	2,276	-	40	-	-80	-	120
2. Sales	191	13,598	188	14,343	188	15,669	-	1,326	-	786	-	540
3. Program Support	17	1,612	17	1,053	17	1,087	-	34	-	0	-	34
4. Marketing and Communications	10	1,495	12	1,372	12	1,447	-	75	-	0	-	75
Unobligated balance lapsing		78										
Total appropriation, authorized level and budget estimate	252	18,880	252	19,004	252	20,479	-	1,475	-	706	-	769
Permanent Positions	289		281		281		-		-		-	

1/29/90

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in thousands)

	EXECUTIVE DIRECTION			SALES			PROGRAM SUPPORT			MARKETING AND COMMUNICATIONS			TOTAL		
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
Program Changes:															
1. Education Bond Brochures	--	--	--	--	--	900	--	--	--	--	--	--	--	--	900
2. Program Reductions to Offset Pay Costs and Other Absorptions:															
o Travel	--	--	0	--	--	-30	--	--	0	--	--	0	--	--	-30
o Printing	--	--	0	--	--	-54	--	--	0	--	--	0	--	--	-54
o Other Services	--	--	-50	--	--	-30	--	--	0	--	--	0	--	--	-80
o Equipment	--	--	-30	--	--	0	--	--	0	--	--	0	--	--	-30
Total, Program Changes	--	--	-80	--	--	786	--	--	0	--	--	0	--	--	706

27-963 O—90—9

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in thousands)

	EXECUTIVE DIRECTION			SALES			PROGRAM SUPPORT			MARKETING AND COMMUNICATIONS			TOTAL		
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
Other Changes:															
Adjustments Necessary to Maintain Current Levels:															
1. Annualization of FY 1990 Pay Act Increases	--	--	19	--	--	72	--	--	6	--	--	8	--	--	100
2. Increased Cost for Proposed FY 1991 Pay Raise	--	--	39	--	--	219	--	--	18	--	--	25	--	--	300
3. Increased Costs for EX/SES Pay Raise (P.L. 101-194)	--	--	24	--	--	0	--	--	0	--	--	0	--	--	24
4. Increased Cost for Additional Compensable Day	--	--	8	--	--	29	--	--	2	--	--	2	--	--	41
5. Increased Cost of Health Insurance	--	--	9	--	--	47	--	--	4	--	--	5	--	--	65
6. Increased Cost of FERS	--	--	2	--	--	7	--	--	0	--	--	1	--	--	10
7. Decrease in Cost for Workers Compensation	--	--	0	--	--	-1	--	--	0	--	--	0	--	--	-1
8. Increased Cost of Travel and Transportation of Persons	--	--	2	--	--	80	--	--	0	--	--	0	--	--	82
9. Increased Cost of Transportation of Things	--	--	0	--	--	3	--	--	0	--	--	0	--	--	3
10. Decrease in Cost of Rent, Communications and Utilities	--	--	-5	--	--	-26	--	--	0	--	--	-3	--	--	-34
11. Increased Cost of Printing and Reproduction	--	--	4	--	--	117	--	--	0	--	--	8	--	--	129
12. Increased Cost of Other Services	--	--	19	--	--	27	--	--	3	--	--	29	--	--	78
13. Increased Cost of Supplies and Materials	--	--	1	--	--	4	--	--	0	--	--	0	--	--	5
14. Increased Cost of Equipment	--	--	1	--	--	3	--	--	1	--	--	0	--	--	5
Total, Other Changes	--	--	120	--	--	540	--	--	34	--	--	75	--	--	769
Total, Increases or Decreases Compared with FY 1990 Authorized Level	--	--	40	--	--	1,326	--	--	34	--	--	75	--	--	1,475

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

The mission of the U.S. Savings Bonds Division is to increase the sale and retention of savings bonds. In accomplishing this mission, the Division broadens public ownership of the national debt, increases personal savings, and reduces the cost of debt financing.

The Savings Bonds program makes an important contribution to our overall public debt management objectives. Savings Bonds have been a less costly means of financing than the alternative of Treasury marketable securities. They have broadened the market for Treasury debt and they have helped to achieve our goal of placing more of the debt in the hands of long term savers.

In order to help the United States Government finance its debts in the least expensive way possible, the Savings Bonds program has enlisted the direct participation of American business, labor, banking, media, and community groups, while still providing the opportunity for all citizens to voluntarily participate in the financing of their government.

The U.S. Savings Bonds Division is requesting $20,479,000 and 252 full-time equivalent (FTE) positions for FY 1991 -- an increase of $1,475,000 from the resource level provided for FY 1990 with no increase in FTE positions. This request includes a $900,000 program increase and $769,000 for inflation and other increases, offset by $194,000 in program reductions.

The program increase of $900,000 will allow the Division to print approximately 60 million brochures to promote the Education Bond Program and to inform the public of its features and benefits.

The operations of the U.S. Savings Bonds Division are divided into four major activities. The role of each of these activities is discussed below.

Executive Direction and Administration:

This activity provides the overall management of the U. S. Savings Bonds Division, establishes policies, directs the development and execution of a national marketing program, and provides leadership and direction to the paid staff and the volunteers identified with the program.

Sales Operations:

This activity includes the offices of the Directors of the Eastern and Western Markets, as well as district and area offices, and is responsible for coordinating the development and execution of activities to promote the sale of savings bonds through the Payroll Savings Plan and over-the-counter purchases.

Program Support:

The Program Support activity provides national program and policy support to the Executive Director aimed at enhancing the efficiency and effectiveness of bond sales operations and the implementation of the Savings Bonds Sales Plan. This activity also plans, develops, and implements national programs, and provides data and management support to the Directors of Sales in documenting the performance of the field staff and evaluating the allocation of field offices and staff resources toward new sales priorities and bond markets.

Marketing and Communications:

This activity plans, develops, and executes national advertising, promotion, and publicity programs, and develops and coordinates the implementation of new techniques for marketing savings bonds.

Accomplishments

During fiscal year 1989 the Savings Bonds Division maintained a strong sales promotion effort through volunteers, employers, financial institutions, and the media. This effort generated $7.7 billion in savings bond sales, an increase of more than six percent over those for the preceding year. The value of bonds outstanding rose more than seven percent to an all-time high of $115.7 billion.

The Division also undertook new initiatives during fiscal year 1989 of working with the Bureau of Public Debt to implement the Regional Delivery System (RDS). In June the RDS was put into effect for the entire Cleveland Federal Reserve District, including Western Pennsylvania, Northern Kentucky, and the West Virginia panhandle in addition to the state of Ohio. By year end the Division, Public Debt, and the Federal Reserve System had completed planning and preliminary liaison with the banking community for extension of the RDS to two additional Federal Reserve Districts. The Regional Delivery System is planned to be in place nationwide by the end of FY 1991.

The Division prepared extensively for the January 1, 1990 introduction of the Education Savings Bonds Program, enacted early in FY 1989. The Division developed a thorough, innovative sales promotion and public information plan for the new program, created special promotional materials, and was highly successful in obtaining prominent and favorable media coverage of the Education Bond Program. Promotional materials were coordinated with IRS and the Bureau of Public Debt.

Projections

A goal of $8.9 billion in dollar sales has been set for fiscal year 1991. This effort is expected to save the Government an estimated $623 million in interest costs on the Public Debt.

During fiscal year 1991 the Division will devote most of its resources to promoting both the traditional "EE" bonds and the new Education Bond features. Our Advertising Program will place special emphasis on increasing public awareness of the features and benefits of savings bonds and on creating and maintaining a receptive atmosphere among bond-buyers, potential bond-buyers, and the business, banking, and labor communities.

The Division will develop and distribute 60 million pieces of promotional materials to provide consumers information and outline the technical features being added to the traditional Series EE bonds to encourage savings for higher education. In addition to the current distribution market, the education bond brochure will also target those segments of the public with an interest in saving for education. We will focus on obtaining the voluntary cooperation of a number of organizations which can provide direct access to parents and other adults planning higher education for their children or themselves. We will also continue to make extensive sales calls and organize and conduct training seminars for bank personnel in support of the regionalized delivery of over-the-counter savings bonds.

Department of the Treasury

U.S. SAVINGS BONDS DIVISION

Federal Funds

General and Special Funds:

ADMINISTERING THE PUBLIC DEBT

For necessary expenses connected with any public-debt issues of the United States; [$207,906,000] $175,139,000. (Treasury Department Appropriations Act, 1990.) 1/

1/ This request includes the Bureau of the Public Debt.

SELECTED WORKLOAD DATA
(Number of Promotional Contacts)

Activity and Principal Workload Factors	1989 Actual	1990 Program in 1990 Budget	1990 Budget 1991 Budget	1991 Estimate	Percent of Change Over 1990
Promotion of the sale of Savings Bonds					
Promotional Contacts:					
Payroll Savings Contacts	52,566	50,400	50,000	50,000	---
Financial Institutions	16,637	16,000	16,400	16,400	---
Labor Organizations	612	600	600	600	---
Print Media	4,816	4,300	4,300	4,300	---
Broadcast Media	4,272	4,400	4,400	4,400	---
Volunteers	2,666	3,400	3,400	3,400	---
Organizations & Other	2,678	3,100	3,100	3,100	---
Total Promotional Contacts	84,247	82,200	82,200	82,200	---

Administering the Public Debt
U.S. Savings Bonds Division

FY 1989 DOLLAR SALES AND ESTIMATED SALES FOR FY 1990 AND FY 1991
(dollars in thousands)

Activity and Principal Workload Factors	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget	1991 Estimate	Percent of Change Over 1990
Promotion of the sale of Savings Bonds:					
Dollar Sales:					
Series EE	$7,723,000	$8,306,000	$8,507,000	$8,874,000	+ 4.3
Series HH 1/	---	---	---	---	---
Total	$7,723,000	$8,306,000	$8,507,000	$8,874,000	+ 4.3

1/ Cash sales of Series HH bonds were permitted from January 1980 through October 1982. Since October 31, 1982 Series HH have been issued only in exchange for Series E or EE bonds. Cash sales reported thereafter are adjustments.

Administering the Public Debt
U.S. Savings Bonds Division

DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full Time Equivalent Positions)

Principal Categories	Actual	Estimated		Increase/Decrease for 1991		
	1989	1990	1991	Total Changes	Program Changes	Other
Managerial and administrative direction..	7	7	7	---	---	---
Managerial and administrative support....	19	20	20	---	---	---
Accounting technicians and other.....	11	11	11	---	---	---
Sales promotional.....	152	152	152	---	---	---
Mail and files.....	2	2	2	---	---	---
General clerical.....	54	52	52	---	---	---
Subtotal.....	245	244	244	---	---	---
Part-time and Temporary Full Time Equivalent positions.....	7	8	8	---	---	---
Total Full Time Equivalent positions.....	252	252	252	---	---	---

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Administering the Public Debt
U.S. Savings Bonds Division

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to Congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the U. S. Savings Bonds Division proposes the following adjustments in FY 1990 spending ($000):

	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
Object Classification				
11.9 Total Personnel Compensation	9,628		97	9,725
12.0 Total Benefits	1,533		47	1,580
13.0 Benefits of Former. Personnel	0		0	0
21.0 Total Travel	809		0	809
22.0 Total Transportation	410		80	490
23.1 GSA Rent	1,244		0	1,244
23.2 Other Rent	0		0	0
23.3 Total Communications & Utilities	1,111		64	1,175
24.0 Printing	1,550		297	1,847
25.0 Total Other Services	2,288		-379	1,909
26.0 Total Supplies	106		-6	100
31.0 Total Equipment	325		-200	125
41.0 Grants, Subsidies	0		0	0
42.0 Insurance Claims	0		0	0
44.0 Refunds	0		0	0
TOTAL	19,004	0	0	19,004
Activity				
Promotion of the Sale of Savings Bonds	19,004	0	0	19,004

THE DEPARTMENT OF THE TREASURY

Administering the Public Debt
U.S. Savings Bonds Division

EXPLANATION OF FISCAL YEAR 1990 BUDGET AUTHORIZED LEVEL AND ADJUSTMENTS

Explanation of Reprogrammings

Reprogramming actions represent the shifting of $585,000 to fund the FY 1990 pay raise, replenish existing supplies of technical publications and major generic consumer information materials, and cover shortfalls in freight charges and local telecommunications services. The redistributed funds were derived from contractual services and equipment purchases.

Administering the Public Debt
U.S. Savings Bonds Division

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

The FY 1991 request for the U.S. Savings Bonds Division is $20,479,000 and 252 FTE positions. This request is $1,475,000 above the FY 1990 authorized level and includes a program increase of $900,000 offset by $194,000 in program reductions, and $769,000 for inflation and other increases.

PROGRAM CHANGES

Total Requested Program Changes	**$706,000**
o **Education Bond Brochures**	**$900,000**

The program increase requested for FY 1991 will allow the Division to print approximately 60 million brochures to promote the Education Bond Program and inform the public of its features and benefits. The Education Bond Program, begun in January 1990, is a major change in the features of savings bonds that will require extensive public information and education. The Education Bond Program provides that all interest earned on Series EE savings bonds issued after December 31, 1989 may be tax-free for qualified taxpayers if the owner of the bond, or the spouse of the owner, pays higher education expenses for the owner, spouse, or dependent child in the year the bond is redeemed.

PROGRAM CHANGES (CONT'D)

To qualify for the full tax exclusion, the total redemption proceeds (principal and interest) may not exceed the tuition and fees paid, and the taxpayer's modified adjusted gross income may not exceed $40,000 for a single taxpayer or $60,000 for a joint return. A reduced tax exclusion applies up to $55,000 (single) and $90,000 (joint). The owner of the bond must have reached age 24 at the time of purchase. The legislation requires the Secretary of Treasury to promote the Education Bond Program. The Division will provide strong support for this major initiative of the President and the Congress to promote education and increase saving in the United States.

- **Program Reductions to Offset Pay Costs and other Absorptions** $194,000

To absorb the projected FY 1991 pay raise, the SES pay raise, and fully fund increases to maintain current levels will require reductions to travel, printing, ADP and other contractual services, and ADP equipment purchases.

OTHER CHANGES

Increases Necessary to Maintain Current Levels	**$769,000**
o Annualization of January 1990 Pay Act Increases	$100,000

This amount represents one-quarter of the FY 1990 base amount for the January 1990 pay raise which was effective for three-quarters of the year in FY 1990. The amount includes the cost of salaries and benefits and was derived by multiplying the actual salaries of the on board staff by the pay increase percentage and calculating the amount for one quarter of the year.

o Increased Cost for Proposed FY 1991 Pay Raise	$300,000

This amount reflects the cost of salaries and benefits for three-quarters of the year for a proposed 3.5% pay raise.

o Increased Cost for EX/SES Pay Raise (P.L. 101-194)	$ 26,000

This amount reflects the cost of salaries and benefits for pay increases of senior executives pursuant to P.L. 101-194.

- **Increased Cost for Additional Compensable Day** ..... **$ 41,000**

  This amount reflects the increased cost of salaries and benefits for one additional compensable day in FY 1991.

- **Increased Cost of Health Insurance** ..... **$ 65,000**

  The Office of Personnel Management (OPM) projects a general increase of 15% for agency contributions to employee health benefits.

- **Increased Cost of FERS** ..... **$ 10,000**

  This increase represents the total incremental retirement cost over FY 1990.

- **Decreased Cost of Workers Compensation** ..... **($ 1,000)**

  This decrease represents the actual 1989 Workers' Compensation Fund billing that will be paid in FY 1991 under that budgeted for FY 1990.

- **Increased Cost of Travel and Transportation of Persons** ..... **$ 42,000**

  The Division is requesting an additional $42,000 to fund the increase over FY 1990 estimated by GSA.

- **Increased Cost of Transportation of Things ..... $ 3,000**

  This increase is requested to cover an anticipated increase in freight costs resulting from increased shipments of promotional materials and estimated increases in carrier costs for shipments of household goods.

- **Decrease in Rent, Communications and Utilities ..... ($ 34,000)**

  This decrease represents a net adjustment consisting of a $55,000 increase in space charges based on GSA's space projections, and $11,000 for normal inflation increases for other rental and communication costs, offset by a $100,000 decrease in long distance costs for the FTS-2000 system.

- **Increased Cost of Printing and Reproduction $129,000**

  The Government Printing Office (GPO) projects a 7% increase for FY 1991 printing costs. This percentage was applied to the FY 1990 base of $1,847,000.

- **Increased Cost of Other Services ..... $ 78,000**

  The deflator of 4.2% has been applied to the FY 1990 base of $1,653,000 for an increase of $69,000 for outside contracts, other government reimbursables, training, and other miscellaneous support services. An increase of $9,000 is requested for maintenance of equipment, GSA services, and the TIMIS payroll system.

Administering the Public Debt
U.S. Savings Bonds Division

- **Increased Cost of Supplies and Materials** ..... $ 5,000

  This increase represents the amount needed for the projected 4.2% inflation increase.

- **Increased Cost of Equipment** ..... $ 5,000

  The deflator of 4.2% has been applied to the FY 1990 base of $125,000 for purchases of ADP equipment and software, furniture replacement, and other equipment purchases.

Administering the Public Debt
U.S. Savings Bonds Division

Standard Classification Schedule
(Direct Obligations Only, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	289	281	281	---
Full time equivalent (FTE) workyears	252	252	252	---
Object Classification				
Personnel Compensation:				
Permanent Positions	9,015	9,425	9,826	401
Positions Other Than Permanent	90	80	86	6
Other Personnel Compensation	223	220	220	0
Total Personnel Compensation	9,328	9,725	10,132	407
Personnel Benefits	1,561	1,580	1,714	134
Benefits for Former Persons	0	0	0	0
Travel and Transportation of Persons	724	809	821	12
Transportation of Things	483	490	493	3
Rents, Communications and Utilities:				
Rental Payments to GSA	1,228	1,244	1,299	55
Rental Payments to Others	8	0	0	0
Other Rents, Communications and Utilities	1,168	1,175	1,086	-89
Printing and Reproduction	2,103	1,847	2,822	975
Other Services	1,864	1,909	1,907	-2
Supplies and Materials	96	100	105	5
Equipment	239	125	100	-25
Insurance Claims and Indemnities	---	---	---	---
Total Obligations	18,802	19,004	20,479	1,475
Unobligated balance lapsing	78	---	---	---
Transferred to other accounts	---	---	---	---
Obligation of prior year funds	---	---	---	---
Total actual obligations, proposed authorized level and budget estimate	18,880	19,004	20,479	1,475

WEDNESDAY, MARCH 7, 1990.

BUREAU OF PUBLIC DEBT

WITNESSES

GERALD MURPHY, FISCAL ASSISTANT SECRETARY

MARCUS W. PAGE, DEPUTY FISCAL ASSISTANT SECRETARY

EDWIN A. VERBURG, DIRECTOR, FINANCIAL SERVICES DIRECTORATE, DEPARTMENT OF THE TREASURY

RICHARD L. GREGG, COMMISSIONER OF THE PUBLIC DEBT

VAN ZECK, DEPUTY COMMISSIONER

KENNETH W. RATH, ASSISTANT COMMISSIONER (ADMINISTRATION)

JOHN P. MITCHELL, DEPUTY DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT

OPENING REMARKS

Mr. ROYBAL. All right. The committee will now hear from the Bureau of Public Debt. I would like to welcome you, Mr. Gregg, and your colleagues. I would ask you to proceed in any manner that you may desire, Mr. Murphy.

Mr. MURPHY. Thank you, Mr. Chairman. I would like to just highlight a couple of things before turning it over to Commissioner Gregg. I appreciate the opportunity to discuss the Fiscal Year 1991 resource requirements for the Bureau of the Public Debt. The Bureau's request for Fiscal Year 1991 will enable Public Debt to meet its responsibilities for administering the public debt while improving customer service and the cost effectiveness of their programs.

I would like to specifically note that the budget request proposes to shift reimbursement of the Federal Reserve Banks from the appropriation administering the public debt to a new permanent indefinite appropriation. Specific legislation to establish the new account will be proposed. This shift represents the largest dollar impact on Public Debt's fiscal year 1991 budget. The reduction in the Public Debt budget is directly linked to the funding to be derived from the new appropriation account.

Several initiatives included in the Fiscal Year 1991 budget are investments which will produce considerable savings in the near future. One of these programs is the Regional Delivery System (RDS) which centralizes the function of issuing savings bonds in 12 Federal Reserve Banks. Other programs include ongoing efforts to modernize and enhance the savings bond processing system, and implementation of a greatly improved public debt accounting system.

Mr. Richard L. Gregg, the Commissioner of the Public Debt, will provide more detailed information on the Fiscal Year 1991 request for the Bureau of the Public Debt. I will turn it over to Mr. Gregg at this point.

Mr. ROYBAL. Mr. Gregg, would you please proceed in any manner that you may desire?

Mr. GREGG. Thank you, Mr. Chairman. With your permission, I would like to submit my full statement for the record, and I would like to make a summary of the appropriation requests by using some charts we have with us.

Mr. ROYBAL. Thank you. Your written statement will appear in the record at this point.

[The information follows:]

DEPARTMENT OF THE TREASURY

Bureau of the Public Debt

Introductory Statement of Richard L. Gregg
Commissioner of the Bureau of the Public Debt
For Presentation to the Subcommittee on Appropriations

INTRODUCTION

Mr. Chairman and members of the Committee, I appreciate this opportunity to discuss with you our fiscal year 1991 appropriation request for "Administering the Public Debt."

The request provides funds for both the Bureau of the Public Debt and the U.S. Savings Bonds Division. The latter is a separate organization responsible for promoting the sale of savings bonds and will be discussed separately.

FY 1991 APPROPRIATION REQUEST

The total request for "Administering the Public Debt" in fiscal year 1991 is $175.1 million and 2,227 FTE positions. Of this total, the Bureau of the Public Debt request is $154.7 million and 1,975 FTE positions. For Public Debt, this is a net decrease of $20.2 million and an increase of 8 FTE positions over the fiscal year 1990 level.

FEDERAL RESERVE REIMBURSEMENT

Our 1991 request includes a decrease of $23.2 million related to the shift of funding from this appropriation to a new permanent indefinite appropriation for reimbursing Federal Reserve banks.

While Congress has consistently recognized that the work performed for us by the Reserve banks is essential, the amounts appropriated in recent years have been insufficient to cover the full costs of FRB services. When this occurs, the full cost of administering the public debt is not disclosed in the budget and these shortfalls must be indirectly funded by reductions in the revenue remitted to Treasury by the Reserve banks.

To address this problem, we will propose legislation to establish a permanent indefinite appropriation from which we can fully reimburse the Federal Reserve banks. Regardless of the method by which the banks are reimbursed, the Bureau of the Public Debt will continue to provide the Congress with information on the full costs of services provided to us by the Reserve banks.

SAVINGS BOND PROGRAM

In fiscal year 1991, Public Debt workload resulting from the sale of United States Savings Bonds is expected to decrease by 6.5 million pieces below anticipated levels for fiscal year 1990. Fewer pieces will be issued as a direct result of the elimination of $50 and $75 payroll bonds effective October 1, 1990. These

two denominations have not been available for new payroll enrollees since April 1, 1988, and effective October 1, they will not be available to any payroll bond purchaser. We expect that most payroll savers will continue to participate in the program and will "trade up" to the $100 denomination which has a $50 issue price. This change will provide a savings of $3.4 million.

The new Regional Delivery System (RDS) for savings bonds, that uses 12 regional issue centers as opposed to 45,000 financial institutions, is being phased in on a nationwide basis for over-the-counter savings bonds sales. When fully implemented, RDS will significantly improve cash management and reduce operating costs of the Savings Bond program by $6.4 million annually. RDS has already begun to reduce our costs and our submission reflects savings of $3.9 million. However, 1991 is a year of continued significant project expansion and our implementation costs will slightly exceed our savings in this transition year. As a result, we are also requesting an increase of $4.1 million and 3 FTE positions.

Mr. Chairman, Public Debt's budget request supports our policy objectives and will enable us to process anticipated workloads, to continue to improve service to investors, and to undertake important systems improvements.

Thank you for consideration of our request. We will be glad to answer any questions that you and the members of your Committee may have.

Administering The Public Debt
U.S. Savings Bonds Division

SALE OF U. S. SAVINGS TYPE SECURITIES
FISCAL YEARS 1941-1989
(in millions of dollars)
-at issue price-

Fiscal Year	Series E 1/	Series EE	Series H 2/	Series HH 3/	Freedom Shares	Grand Total
1941 - 1951	$61,969					$61,969
1952 - 1961	38,056		$6,999			45,055
1962 - 1971	42,649		3,926		$862	47,437
1972 - 1979	55,637		2,411			58,048
1980	2,949	$1,736	25	$109		4,819
1981	0	3,303		52		3,355
1982	0	3,062		50		3,112
1983	0	3,952		48		4,000
1984	7	3,889		-6		3,889
1985	4	5,021		5		5,030
1986	-4	8,305		-1		8,300
1987	-36	10,353		-38		10,279
1988	---	7,264				7,264
1989	---	7,723				7,723
Total	201,231	54,608	13,361	219	862	270,280

1/ Series E bonds were sold from May 1, 1941 through June 30, 1980, sales reported thereafter are adjustments. 2/ Series H bonds were sold from June 1952 through December 31, 1979. 3/ Series HH bonds were sold from January 2, 1980, through October 31, 1982; sales reported thereafter are adjustments. From January 1960 through October 1969, H bond sales included minor amounts of exchanges of Series F and J bonds and Freedom Shares; However, they excluded exchanges of Series E bonds. Freedom Shares were sold from May 1, 1967 through June 30, 1970. Series EE and HH bonds were first offered for sale on January 1, 1980. Due to rounding figures may not add to totals.

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Administering the Public Debt
U.S. Savings Bonds Division

DETAIL OF PERMANENT POSITIONS

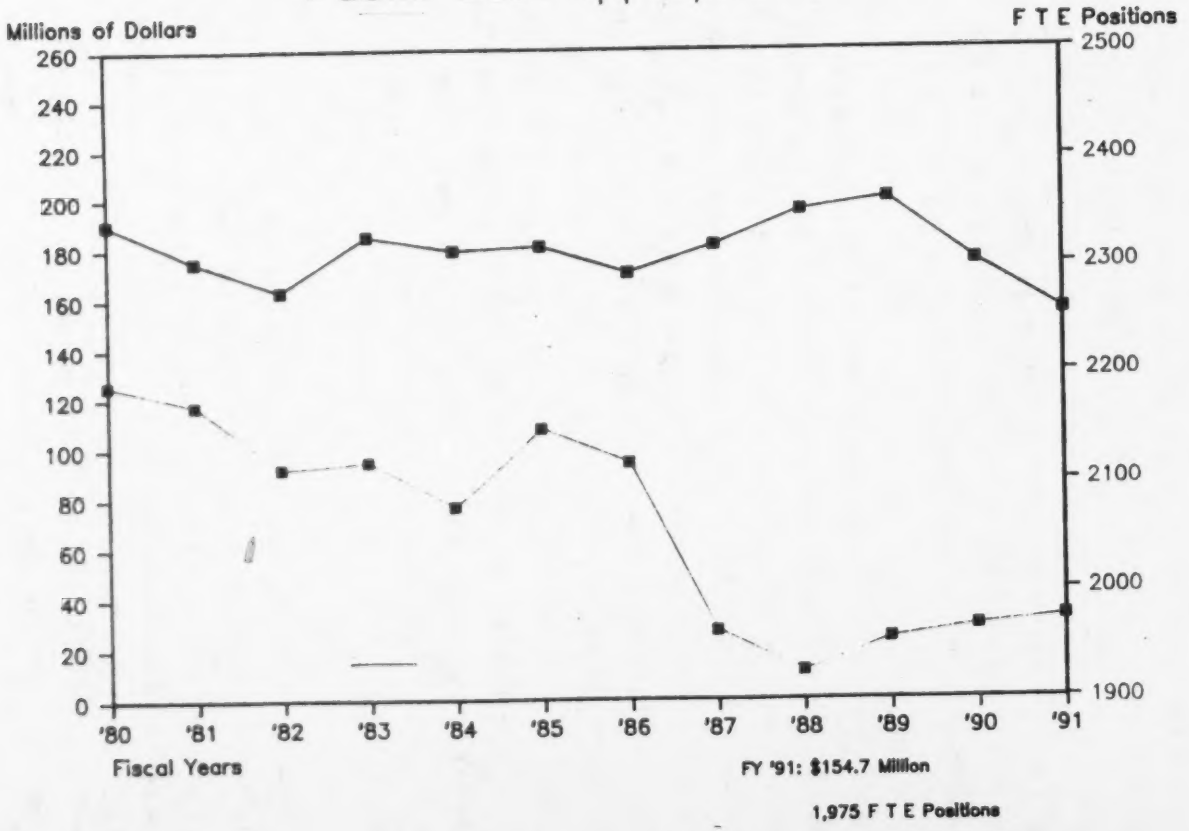
	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate
Senior Executive Service Level 4	2	2	2
Subtotal	2	2	2
GS/GM-15	8	8	8
GS/GM-14	23	23	23
GS/GM-13	27	27	27
GS-12	128	120	120
GS-11	0	1	1
GS-10	1	1	1
GS-09	6	6	6
GS-08	1	1	1
GS-07	28	28	28
GS-06	10	9	9
GS-05	15	15	15
GS-04	37	37	37
GS-03	3	3	3
GS-02	0	0	0
Subtotal	289	281	281
Ungraded	0	0	0
Total permanent positions	289	281	281
Unfilled positions, end-of-year	(40)	(24)	(27)
Total permanent employment, end-of-year	249	257	254

Administering the Public Debt
U.S. Savings Bonds Division

DETAIL OF AVERAGE GRADES AND SALARIES

	Actual FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES salary	$74,900	$77,600	$90,600
Average GS grade	9.68	9.85	9.82
Average GS salary	$34,846	$36,101	$37,364
Average salary of ungraded positions	N/A	N/A	N/A

Public Debt Appropriation



PUBLIC DEBT RESOURCES

Mr. GREGG. Thank you. The first chart that I have talks about the overall Public Debt appropriation. This is summary level. This shows the dollars and the FTE positions for Public Debt from 1980 to 1991. The bottom blue line shows the FTE positions. And, as you can see, we had a sharp decline in the mid-1980s, and since that time it has been quite stable. We have had very moderate increases in 1990 and 1991. For 1991, we are requesting 1,975 FTE positions, which is an increase of eight positions over 1990.

The top line, which shows the dollar amounts that we have requested over the years, is also very moderate, very steady line. And these numbers have not been adjusted for inflation. I think as a result of that, this reflects a lot of work that we have done over the years to try to keep our costs down. For Fiscal Year 1991, we are requesting $154.7 million, and that is a decrease of $20.2 million compared to Fiscal Year 1990. The reason for the decline has to do with our new approach for Federal Reserve Bank reimbursements, and that is shown on the next chart that we have.

Let me mention just before getting into the chart that I would like to thank this committee for its many years of support in our dealings with the Federal Reserve Banks and the appropriations. I realize that the situation that we are in today is not a result of anything really having to do with this committee, but with the overall environment in Congress and the difficulty of the funding.

FEDERAL RESERVE BANK REIMBURSEMENTS

This chart shows the reimbursements for 1988, 1989, and 1990. And the green blocks show the amounts that have been requested, and the blue shows what has been appropriated. As you can see for 1988 and 1989, we had shortfalls of approximately $20 million, and in 1990, the shortfall increased to a little bit over $50 million. As a result of the funding difficulty we have had, we have taken a new approach for Fiscal Year 1991.

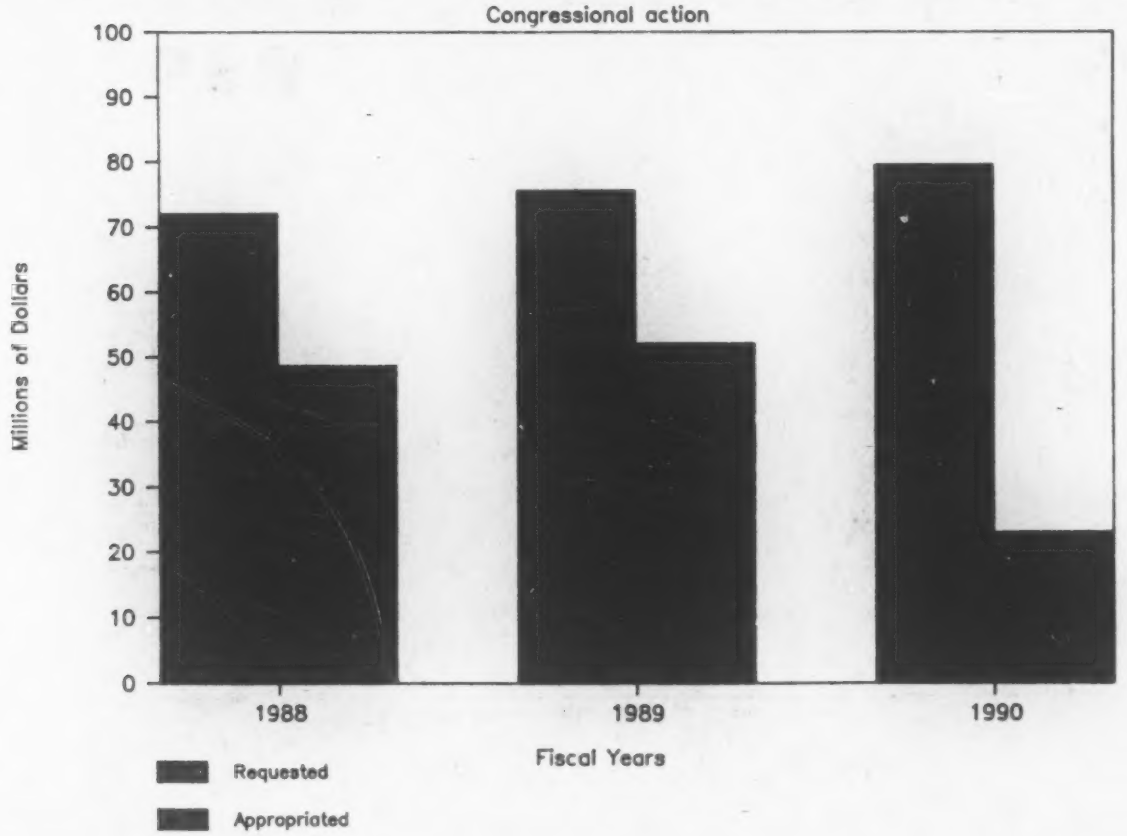
We do not have funds at all in this year's budget for reimbursing the Federal Reserve Banks. Instead, as Mr. Murphy said, we are proposing a permanent indefinite appropriation to pay the Reserve Banks. We think that if we can get the legislation passed that that will resolve the funding problem we have had over the last several years. It will allow us to continue full reporting of the costs of administering the public debt, and will also allow us to maintain the business-like relationship that we have with the Federal Reserve Banks.

I would also like to ask that when the legislation is proposed that we get your personal support and the support of this committee in any way possible for getting the legislation passed. That would be very much appreciated.

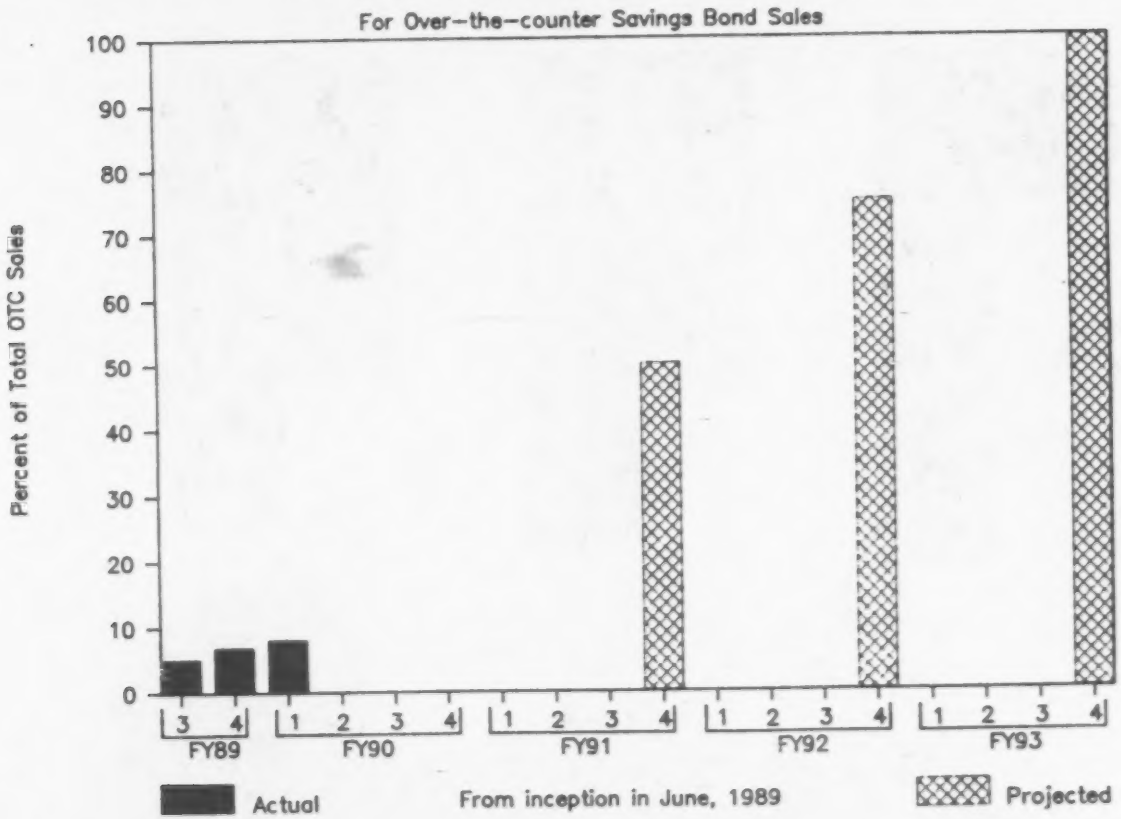
SAVINGS BONDS

Next I would like to talk about two savings bond issues that are important for this year's budget. The first one has to do with the Regional Delivery System, also known as RDS. This is a new way of handling over-the-counter savings bonds. This will allow us to move away from having 45,000 agents maintaining savings bond

FEDERAL RESERVE REIMBURSEMENTS



REGIONAL DELIVERY SYSTEM



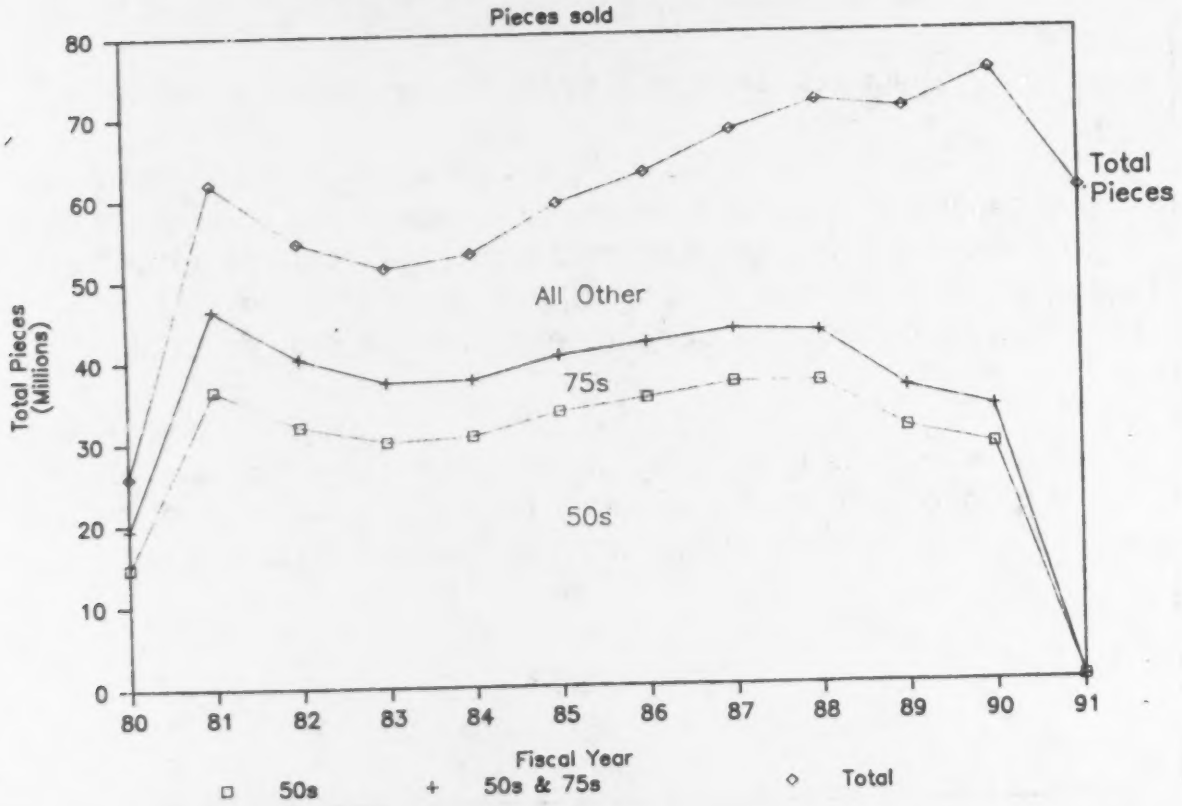
RDS

The Regional Delivery System (RDS) uses Federal Reserve Banks to inscribe and deliver Savings Bonds sold over the counter to walk-in customers at financial institutions within the Banks' Districts.

Financial institutions save through not having to inventory and control savings bond stock; Public Debt saves by obtaining sales data on magnetic tape and through the economies of scale that can be achieved at Reserve Banks; and investors get exactly the denominations they want.

Investor acceptance of RDS has been excellent.

PAYROLL SAVINGS BONDS



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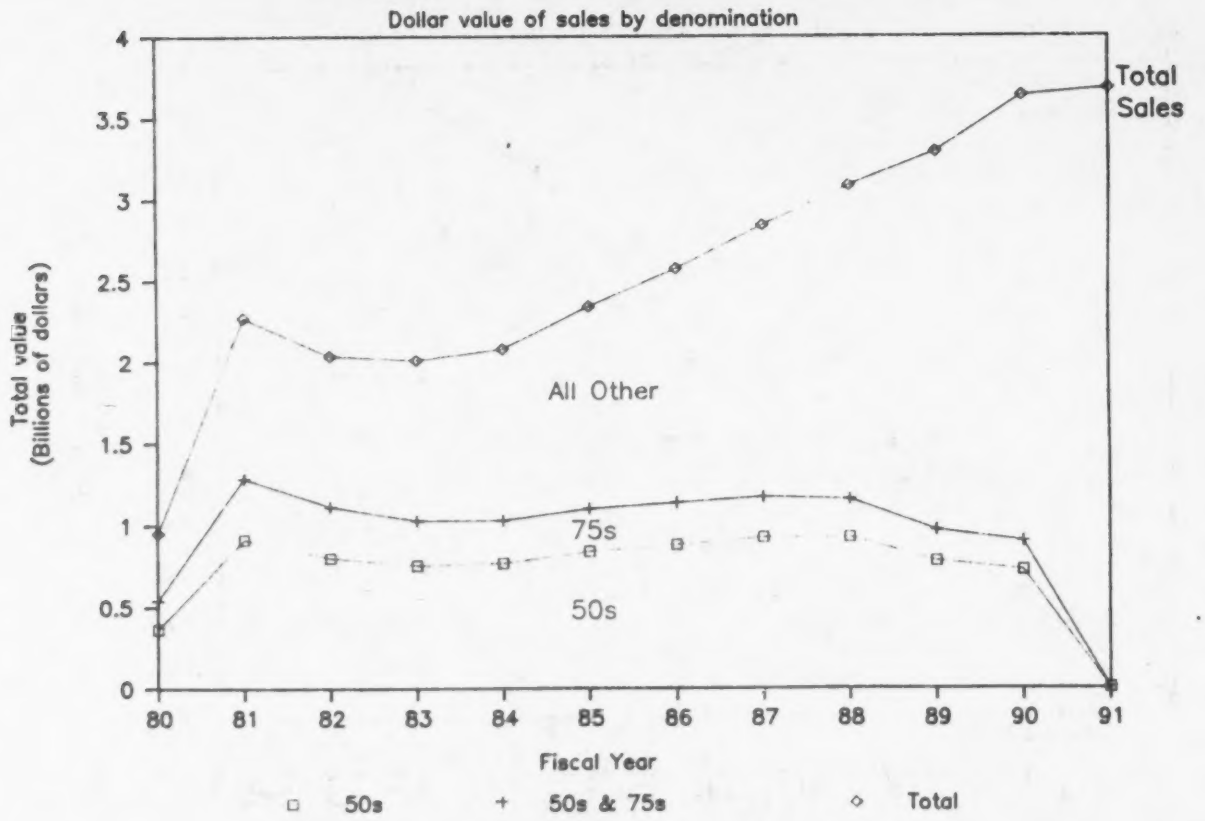
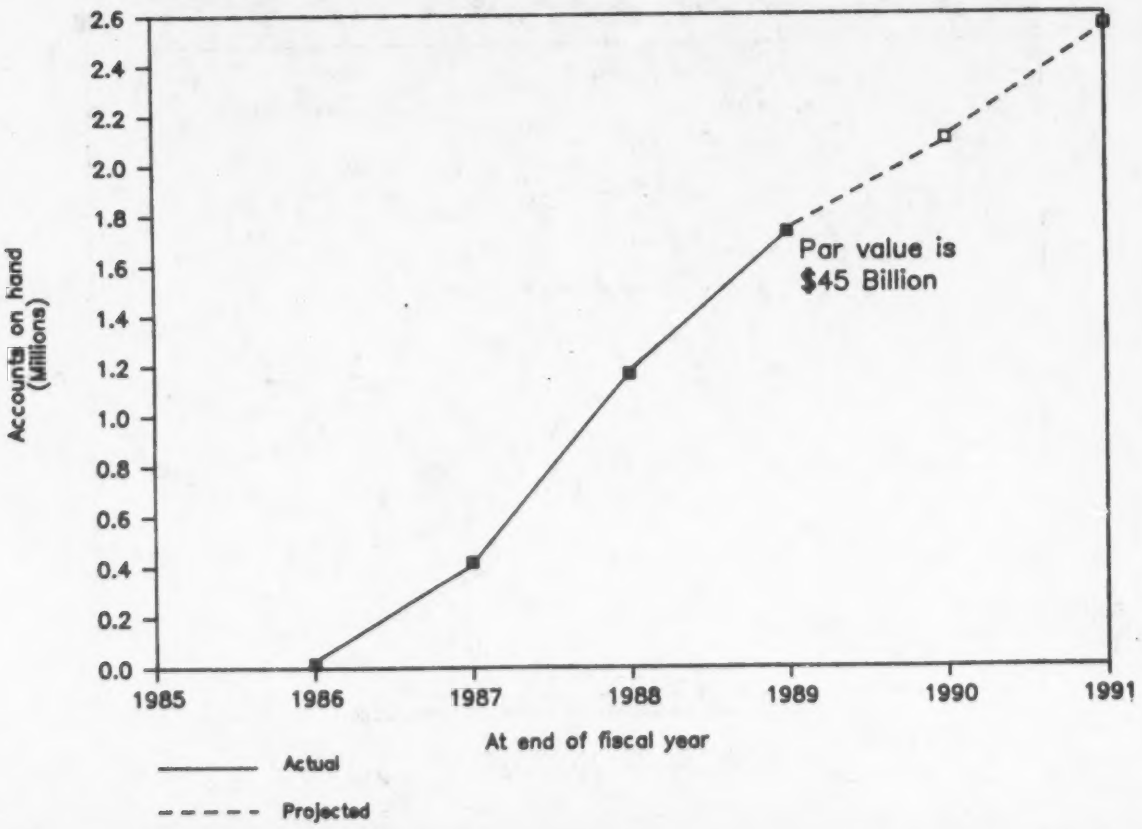
PAYROLL SAVINGS BONDS



TREASURY DIRECT SECURITIES ACCOUNTS



stock and actually issuing savings bonds over the counter. Instead, RDS, will allow us to move to having 12 regional Federal Reserve Banks have the stock in their hands and issue the bonds out of those 12 sites.

The way it would work would be an individual would go in to their local commercial bank; fill out an application form; make payment for the bond; and the application and the funds would be submitted to a Federal Reserve Bank where the bonds would be inscribed and mailed back to the customer.

The reaction we have had from the work that we have done to date has been very positive. The commercial banks who act as our agents think that this is probably the best thing that has come along in a long time. And the individuals who are buying the bonds seem to continue to support the program. We have seen virtually no decline in the dollar amount of bonds sold as a result of RDS.

As you may recall, we did a year-long test of this new approach in the State of Ohio a couple of years ago. Last summer, in June of 1989, we began a nationwide rollout. The chart shows in the dark green what has actually been implemented, and that represents slightly under 10 percent of the total over-the-counter bonds.

We have seven states currently participating, and we expect to have 26 states by the end of this year. At the end of Fiscal Year 1991, we estimate that we will have 50 percent of the over-the-counter bonds going through RDS. That will increase to 75 percent in the end of 1992. We expect to be completely rolled out nationwide by the end of Fiscal Year 1993.

Our Fiscal Year 1991 budget has savings of $3.9 million, but additional costs of $4.1 million. The reason for the higher cost this year is that we are spending quite a bit of money in rolling this out and implementing it, putting systems together, and developing promotional brochures and that sort of thing. When the system is completely implemented, we expect to have savings of slightly over $6 million per year, and cash management savings of about $8 million per year.

Perhaps more importantly than that, however, this is a change that is really going to retain the savings bonds agents as a vital force in this part of the program. I think had we not done this, we would have begun to see many of the agents want to get out of the savings bond program. I think what we are doing is keeping them actively involved and very happy about this change.

PAYROLL SAVINGS BONDS

The next item I would like to turn to has to do with the payroll savings bond market. This does not affect the over-the-counter market at all. This is a decision that is reflected in this year's budget to discontinue the $50 and $75 savings bonds for the payroll market, effective October 1, 1990. The reason we are doing this is to reduce the cost of the savings bond program. We do believe, however, that this will not damage the program.

As you recall, Mr. Chairman in Fiscal Year 1988, we began gradually phasing out these denominations in payroll sales. At that time, we announced that any new enrollees in the payroll program would not have these smaller denominations available to them.

The smallest denomination would be the $100 bond. Since that time, as this next chart shows, the volume of $50 and $75 bonds has been reduced sharply. Those are the bottom two lines on the chart. The decline is reflected in the years 1988, 1989, and 1990.

At the same time, however, the overall volume of bonds sold, which is reflected in the top line, shows that actual volume increased. I think that reflects what we hoped would happen, and in fact has happened. Individuals did not drop out of the program. They moved up to the next highest denomination. For Fiscal Year 1991, as a result of this change, we will have an overall reduction in the number of pieces sold in the payroll market of 15 million bonds.

The next chart shows the dollar value of sales in the payroll market, and the only thing I would like to mention here is that the top line reflects the overall sales. It is our projection that even with the elimination of the $50 and $75 denominations, that the value of bonds will actually increase between 1990 and 1991. For our Fiscal Year 1991 budget, we have identified savings of $3.4 million as a result of this change.

TREASURY DIRECT ACCOUNTS

I have one final chart, and that is not in the savings bond area, but in the marketable securities area. This is the Treasury Direct securities accounts. This is a system that we put in place in 1986, and it has been working flawlessly since that time. This is a system where primarily individual investors can purchase Treasury bills, notes and bonds directly from Treasury or one of the Federal Reserve Banks, and maintain the accounts directly with us.

We currently have about 1.8 million investor accounts with a par value of $45 billion in that system. We are projecting that that will increase to 2.6 million accounts in Fiscal Year 1991. So it is a system that we are very proud of and pleased with. It is also the system that is primarily responsible for the significant decline in the FTE positions which was shown on that first chart. It is a result of the efficiencies in this system that we were able to reduce those FTE positions by that amount.

Mr. Chairman, that concludes my summary remarks. I would be happy to answer any questions that you and the Members of this committee might have.

Mr. ROYBAL. Thank you, Mr. Gregg. I think your explanation and your presentation is quite excellent.

Mr. GREGG. Thank you.

FEDERAL RESERVE BANK REIMBURSEMENTS

Mr. ROYBAL. I think we should try to get in the record the sequence how this took place, and what the end result is. So let us start by first taking a reduction of $18.7 million in your budget request. The first question that would come to mind is that, is that based on the assumption that the proposed legislation will be enacted into law?

Mr. GREGG. Yes, sir.

Mr. ROYBAL. But the legislation has not been introduced yet.

Mr. GREGG. No, it has not.

Mr. ROYBAL. Is that not rather optimistic?

Mr. GREGG. I believe that it is optimistic, but we are moving very quickly to have the legislation introduced. And I think that within a week or two weeks, it will be submitted to Congress.

Mr. ROYBAL. All right. Now does that mean then that you have not requested any funding to reimburse the Federal Reserve Banks in 1991?

Mr. GREGG. That is correct.

Mr. ROYBAL. What was the Federal Reserve Bank's response to your discontinuing payment to them?

Mr. GREGG. We have talked with them about the approach that we are taking, and I think that perhaps like us, they would prefer to have the amounts appropriated. But given the difficulty we have had in the recent years, they are fully supportive of the approach of getting the permanent indefinite legislation.

Mr. ROYBAL. What you are requesting makes a lot of sense, but I have seen legislation that makes a lot of sense stay in committee and not come out.

Mr. GREGG. I think that is something that we will have to keep an eye on. If it is forwarded to committee, or when it is forwarded to the committees and if we are not able to move, I will have to reevaluate and see whether we go back and request funds in the regular appropriation.

Mr. ROYBAL. Then what will happen then to the Federal Reserve Banks? Are you not going to pay in 1991? If that does not pass, what will be the result of it?

Mr. GREGG. I think the same thing that is happening in 1990 will happen. We have a $50 million shortfall in this Fiscal Year, and the Federal Reserve Banks do not like it, and we do not like it, but the work is being done. And what they do, as you know, is that they reduce the amount of revenues that are otherwise returned to Treasury to cover those costs.

Mr. ROYBAL. I sincerely hope that your optimism actually results in something being enacted and something would eventually be beneficial to the work that you are doing. But I am not that optimistic about this particular piece of legislation. Perhaps yes, but I'm not optimistic of legislation simply because it makes sense. [Laughter.]

Mr. GREGG. We would very much like to solve this problem, too.

REGIONAL DELIVERY SYSTEM

Mr. ROYBAL. Now, what is involved in the program request for the Regional Delivery System? What is a Regional Delivery System?

Mr. GREGG. It is a system where we are moving from a method that we have had in place for 50 years really, of issuing bonds over the counter. What happens today is an individual walks into a bank and fills out an application form; writes out a check. Normally, the teller will go back to the vault and get the savings bond and come forward and sit down and inscribe the bond—type out the bond owner's name, and deliver the bond to the person. What the Regional Delivery System does is move the bonds themselves and the issuance to 12 regional Federal Reserve Bank sites.

Mr. ROYBAL. But when all of this happens, then the savings bond sales would be completely automated.

Mr. GREGG. This will be a very big step in the automation. It will not cover everything, but it will cover roughly 25 million bonds which are not presently automated. And those will be automated, because what we will get from the Federal Reserve Bank——

Mr. ROYBAL. Will the time ever come when they will be completely automated?

Mr. GREGG. Yes. We have several other plans underway that will do just that.

Mr. ROYBAL. Which means that you will need better equipment to bring that about as part of the plan that you now have.

Mr. GREGG. Yes, sir.

AGENT FEES

Mr. ROYBAL. All right. There is a fee that is paid for issuing and redeeming bonds. What will the total cost be in 1991, and how are those fees received? Who gets that money?

Mr. GREGG. The fees are paid to individual companies and commercial banks. And it is roughly 30 cents for redeeming a bond, and it averages out to be 26 cents for issuing the bonds. And the total amounts for issuing agents for issuing bonds for 1991 is $23.7 million. And the paying agent fees will be $20.7 million.

Mr. ROYBAL. All right. Will you provide for the record a table showing statistical information on the ownership of the public debt, including that held by foreign entities? That can be submitted for the record if you do not have it now.

Mr. GREGG. I think we do have copies. We can hand those out at this time, Mr. Chairman.

Mr. ROYBAL. All right. Then we will include that in the record at this point.

[The information follows:]

FOREIGN AND INTERNATIONAL HOLDINGS OF THE PUBLIC DEBT
(in Billions of Dollars)

End of Fiscal Year *	Total Public Debt	Debt Held by Public **	Foreign & Interna-tional	Foreign as Percent Held by Public
1980	907.7	710.0	118.2	16.7
1981	997.9	789.8	136.6	17.3
1982	1,142.0	925.6	140.6	15.2
1983	1,377.2	1,138.2	160.1	14.1
1984	1,572.3	1,309.2	175.6	13.4
1985	1,823.1	1,506.6	222.9	14.8
1986	2,125.3	1,742.4	265.5	15.2
1987	2,350.3	1,893.1	279.5	14.8
1988	2,602.3	2,051.9	345.9	16.9
1989	2,857.4	2,180.7	393.5 P.	18.0

* September 30; except Foreign in 1980 and 1981 are for June 30.
** Total debt less amounts held by U.S. Government accounts.
P. Preliminary

SOURCE: Treasury Bulletin

Bureau of the Public Debt
Office of the Commissioner
December 1989

FOREIGN HOLDINGS OF U.S. TREASURY SECURITIES

QUESTION: What are the foreign holdings, by country, of U.S. Treasury securities?

ANSWER: Estimated outstanding amounts of U.S. Treasury securities held by foreigners as of fiscal year-ends 1987, 1988 and 1989 are as follows:

(in millions of dollars)

	Sept. 30, 1987	Sept. 30, 1988	Sept. 30, 1989
AUSTRIA	747	718	1044
BELGIUM-LUXEMBOURG	3199	4117	5067
BULGARIA	*	*	*
CZECHOSLOVAKIA	*	*	*
DENMARK	2977	5869	3068
FINLAND	326	1085	1149
FRANCE	11987	10825	9273
GERMAN DEM. REP.	3	3	3
GERMANY	41270	39699	42960
GREECE	486	512	462
HUNGARY	23	42	2
ITALY	1424	2315	8099
NETHERLANDS	5535	4503	4490
NORWAY	4519	5778	7322
POLAND	2	2	2
PORTUGAL	26	27	1593
ROMANIA	0	*	*
SPAIN	1630	8463	11734
SWEDEN	2515	2397	3260
SWITZERLAND	21750	22272	21013
TURKEY	84	158	244
UNITED KINGDOM	14201	28860	45208
U.S.S.R.	*	*	*
YUGOSLAVIA	*	*	1
OTHER EUROPE	2892	4123	4343
TOTAL EUROPE	115548	141726	170286
CANADA	13052	17275	16171
ARGENTINA	276	794	1392
BAHAMAS	1745	1939	1997
BERMUDA	1487	2305	1620
BRAZIL	928	384	995
BRITISH WEST INDIES	583	730	1060
CHILE	229	147	166
COLOMBIA	957	678	795
CUBA	*	*	*
ECUADOR	20	23	24
GUATEMALA	41	12	10
JAMAICA	*	*	15
MEXICO 1/	825	1564	2307

NETHERLANDS ANTILLES	1247	1352	2485
PANAMA	548	400	370
PERU	10	15	11
TRINIDAD AND TOBAGO	50	49	49
URUGUAY	66	69	80
VENEZUELA	628	252	483
OTHER LATIN AMERICA	576	564	531
TOTAL LATIN AMERICA	10216	11275	14390
CHINA:MAINLAND	338	404	282
CHINA:TAIWAN	16746	29838	30838
HONG KONG	4197	5160	5978
INDIA	774	576	526
INDONESIA	286	202	103
ISRAEL	1476	1346	1654
JAPAN	62857	83479	85887
KOREA	2384	2788	3715
LEBANON	*	*	*
MALAYSIA	801	537	632
PAKISTAN	357	408	439
PHILIPPINES	279	233	275
SINGAPORE	5828	5549	6897
SYRIA	1	*	*
THAILAND	863	810	876
MIDDLE-EAST OIL EXPORTERS 2/	23509	21188	34380
OTHER ASIA	1118	1251	1510
TOTAL ASIA	121805	153623	173844
EGYPT	331	65	*
GHANA	20	1	9
LIBERIA	59	91	119
MOROCCO	*	3	2
SOUTH AFRICA	12	10	12
ZAIRE	54	25	26
AFRICAN OIL-EXPORTERS 3/	84	31	31
OTHER AFRICA	89	86	89
TOTAL AFRICA	648	312	244
AUSTRALIA	6530	8214	6894
ALL OTHER	292	325	528
TOTAL OTHER COUNTRIES	6822	8539	7422
TOTAL FOREIGN COUNTRIES	268089	332750	382357

INTERNATIONAL	4504	5208	4427
EUROPEAN REGIONAL	53	42	88
LATIN AMERICAN REGIONAL	688	637	748
AFRICAN REGIONAL	25	46	33
ASIAN REGIONAL	1040	580	791
MIDDLE EASTERN REGIONAL	*	25	*
TOTAL INT'L & REG.	6307	6538	5942
UNDISTRIBUTED 4/	4846	6607	r5516
GRAND TOTAL	279243	345895	393815

NOTE: COUNTRY DETAIL MAY NOT ADD TO TOTALS DUE TO ROUNDING

1/ INCLUDES CURRENT VALUE OF ZERO-COUPON, 20 YEAR ISSUE TO GOVERNMENT OF MEXICO.

2/ INCLUDES BAHRAIN, IRAN, IRAQ, KUWAIT, OMAN, QATAR, SAUDI ARABIA AND THE UNITED ARAB EMIRATES (TRUCIAL STATES).

3/ INCLUDES ALGERIA, GABON, LIBYA AND NIGERIA.

4/ TREASURY DEPOSIT FUNDS BELONGING TO FOREIGNERS AND THE FEDERAL RESERVE BANK OF NEW YORK'S END OF MONTH REPURCHASE AGREEMENTS.

* LESS THAN $500,000

JANUARY 31, 1990 TREASURY/OASIA/ICD

Mr. ROYBAL. Mr. Skeen?

EZ CLEAR SYSTEM

Mr. SKEEN. Thank you, Mr. Chairman. Mr. Gregg, could you give us some idea how this EZ Clear processing of savings bonds is going, and what are the expected savings to the industry in dollar terms?

Mr. GREGG. EZ Clear has been very successful. That allowed us to take the savings bond redemptions and move them from a very manual operation, very specific to savings bonds, and put those into the automated check processing world. And this year, I do not believe we have identified any savings for EZ Clear, but we have, within the base of the budget, we probably have savings of $5 million that will——

Mr. SKEEN. You can project out that kind of savings.

Mr. GREGG. Yes, sir.

Mr. SKEEN. Once you get the system fully implemented.

Mr. GREGG. That is right. Actually we are getting full savings right now, because when we went nationwide with EZ Clear, we reduced the fees for paying agents from 34 cents to 30 cents, so we are getting the full benefit. And EZ Clear will be mandatory a year from now. We have approximately 60 to 65 percent of all redeemed bonds going through EZ Clear.

IMPACT OF BUDGET REDUCTIONS

Mr. SKEEN. All is clear now. Very good. Last year's reduction in the appropriation because of our budgetary constraints, what kind of impact did that have on your operation?

Mr. GREGG. The primary impact was what I was talking about before, had to do with the Federal Reserve Banks. We had come in for, I think, a $23 million increase to try to get the Federal Reserve Banks back up to the level of full reimbursement, and that was cut. I think it is certainly something that we do not like to see happen, but as far as our day-to-day operations, it really did not have direct impact.

Mr. SKEEN. This year's reductions, what kind of impact are you going to have on services and personnel?

Mr. GREGG. I think that the budget that we have will allow us to fully service our customer in a professional and quality manner.

Mr. SKEEN. How about your personnel? Do you take care of them under this?

Mr. GREGG. We, as that first chart showed, have a very small increase of eight FTEs for this year.

Mr. SKEEN. Yes. I noticed that on here.

Mr. GREGG. And——

Mr. SKEEN. Do you need more?

Mr. GREGG. It is enough to get the job done. I think it requires us to set priorities and that is what we should be doing.

Mr. SKEEN. Thank you, Mr. Gregg. Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. Wolf.

FOREIGN HELD DEBT

Mr. WOLF. Thank you, Mr. Chairman. I want to welcome you, Mr. Gregg. I have questions on a couple of issues, and maybe we will cover the chart that you passed out first. What is the total amount of U.S. Federal debt that is held by foreign investors and Governments? Can you just tell me that for the record?

Mr. GREGG. Yes, sir. The total amount, as of September 30, 1989, was $393.5 billion.

Mr. WOLF. So is it fair to say that we have borrowed $393 billion of foreign money to service our debt?

Mr. GREGG. Yes, sir. That is the total amount outstanding at that time.

Mr. WOLF. Total amount outstanding. The chart that you passed out, shows it is growing. We are up to 18 percent for 1989. What is the danger level—and just so I am being very candid with you, it seems to me, if my memory serves me, that the Secretary gave us the danger level last year, and it is in the record. Can you tell me, what you consider to be the danger level?

Mr. GREGG. I do not recall the Secretary giving a danger level. Maybe he did. I did read his transcript at the time. But that is really an area that is outside of my purview, Mr. Wolf.

Mr. WOLF. Would you consider this to be high?

Mr. GREGG. I think that it is not unreasonably high.

Mr. WOLF. It is not unreasonably high. As a citizen, it does not trouble you that we are borrowing $393 billion of foreign money to service our debt?

Mr. GREGG. Well, as a citizen, it bothers me. As an individual, it bothers me the total amount of debt that we are borrowing. I think that traditionally the Treasury has taken the position that we sell securities to everyone in the United States and all foreign countries virtually. There may be some limitations, but that has been the approach. And I think that is still the policy of the Treasury Department today.

Mr. WOLF. So the Treasury Department has no hot button or buzzer that goes on when it hits a certain number? I mean, if it gets to 19 percent, or 20 percent, or 21, or 25, or 33, no one runs down the hall and says, Mr. Secretary—I mean, there is no figure that concerns the Treasury Department officials?

Mr. GREGG. I do not think that there is any particular number that is the hot button number. I would not go so far as to say that there is no figure that might concern the Secretary.

Mr. WOLF. There was a Library of Congress report that I had done, and let me just read and see if you think this is true or false. It says,

> Japanese investment in U.S. Treasury securities is higher than any other type of American asset. Many analysts acknowledge that this foreign capital inflow has eased pressure in the U.S. credit markets, thereby holding down interest rates from the levels they would have likely climbed to without the additional capital. Nevertheless, the rapid accumulation of Treasury securities by foreign investors has spurred some analysts to question the stability of the investments and the prospects of a sudden withdraw of funds by foreigners.

Is there a concern at the Treasury Department that rapid accumulation of Treasury securities by foreign investors has spurred

some analysts to question the stability of the investments and the prospects for a sudden withdrawal of funds by foreigners?

Mr. GREGG. I am not sure that, first of all, the growth has been that rapid. If you look at 1988, we had 16.9 percent, and an increase to 18 percent in the end of 1989. In addition, the growth in the Japanese holdings between 1988 and 1989, while still a sizeable amount, was much smaller than some of the other countries. I think they had a growth of 2.9 percent.

Mr. WOLF. But are they the largest?

Mr. GREGG. They are still the ultimate largest, but their growth between 1988 and 1989——

Mr. WOLF. By far, are they the largest?

Mr. GREGG. Yes, sir.

Mr. WOLF. The volume is double?

Mr. GREGG. Approximately. Yes.

Mr. WOLF. So the record should show that they are almost double.

Mr. SKEEN. The Japanese? Is that the Japanese holdings you are talking about?

Mr. WOLF. Yes.

Mr. GREGG. Yes, sir.

Mr. WOLF. I am really concerned that the Treasury—I do not want to beat this thing too much here today, and I realize you are not a political appointee. I really am concerned though. You all are whistling in the graveyard down there. There just does not seem to be anybody really focusing very much on this. Unless everyone is very stoic and nobody is showing their emotions. Is this an issue that is a concern to the Treasury Department?

Mr. GREGG. I think that the Secretary and the people responsible for debt financing certainly look at the foreign holdings and all other aspects of our debt management policy. And I would not want to speak for them, but I imagine this is something that they watch.

Mr. WOLF. Is there talk among employees?

Mr. GREGG. What we do is get a number for a particular issue and announce the amount that is going to be raised for that auction and set about raising it. We really are not involved in the financing policy.

Mr. WOLF. Would you submit a chart to me showing how this compares with foreign holdings throughout the century?

Mr. GREGG. We will submit a chart as far back as we can put it together.

[The information is as follows:]

GPO SET

Foreign Holdings of U.S. Treasuries
as percent of All Foreign Assets in the U.S. 1973 - 1988

Year	Percent
1973	30.9
1974	29.5
1975	29.6
1976	29.4
1977	35.5
1978	35.8
1979	27.9
1980	25.5
1981	23.4
1982	21.9
1983	20.9
1984	21.7
1985	20.7
1986	19.5
1987	18.7
1988	19.4

Source: International Investment Position of the U.S. Survey of Current Business, Department of Commerce June 1989

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GPO SET

U.S. Treasury Securities Outstanding 1/ and Estimated Ownership by Foreigners, 1970-1989

(billions of dollars)

End of Year	Total Treasuries Outstanding	Estimated Foreign Ownership	Percent Owned by Foreigners
1970	401.6	19.8	4.9
1971	435.1	46.1	10.6
1972	461.1	54.5	11.8
1973	481.5	54.7	11.4
1974	504.0	58.8	11.7
1975	587.6	66.5	11.3
1976	664.8	78.1	11.7
1977	729.2	109.6	15.0
1978	797.7	133.1	16.7
1979	852.2	119.0	14.0
1980	936.7	129.7	13.8
1981	1034.7	136.6	13.2
1982	1201.9	149.5	12.4
1983	1415.3	166.3	11.8
1984	1667.4	192.9	11.6
1985	1950.3	224.8	11.5
1986	2218.9	263.4	11.9
1987	2435.2	299.7	12.3
1988	2707.3	362.1	13.4
1989	2975.5	392.9	13.2

1/ Treasury marketable and nonmarketable securities.

Source: Treasury Bulletin, various issues, Tables OFS-1 and OFS-2.

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Mr. WOLF. If I can get a graph or a chart to show that. What about the yields on Japanese and West German Government bonds? They are increasing. Will that affect the U.S. Treasury offerings?

Mr. GREGG. I do not know.

Mr. WOLF. Do you have an——

Mr. GREGG. That is not an area that I study.

Mr. MURPHY. The Bureau of Public Debt is responsible for administering, and for the mechanisms in the issuance and redemption of marketable and the non-marketable bonds, and they are really not in a position, I do not think, Mr. Congressman, to answer that question for you. Anything that we can provide for the record, we will be happy to do so.

Mr. WOLF. What is your job with the Treasury Department?

Mr. MURPHY. I am a career executive. I am the Fiscal Assistant Secretary, and have oversight responsibilities for the Bureau of the Public Debt and the Financial Management Service.

Mr. WOLF. Could you comment on some of the questions then that I asked?

Mr. MURPHY. It is not really within the scope of my expertise or responsibilities, per se. Obviously, I understand your point and your concern. And I am sure that, obviously, any major loss of markets or indications of someone suddenly wanting to not invest in Treasury securities that would affect the demand on the markets is obviously of a concern. But I am not aware personally of any immediate problem that we see with the size of the foreign holdings at the moment.

Mr. WOLF. In the report I have, it says, "Nicholas Brady, the Head of the Presidential Task Force, has studied the October 19, 1987 stock market decline, and current Secretary of Treasury concluded that the record plunge was triggered by Japanese investors' heavy selling of U.S. Government bonds on October 14, 1987 in a reaction to the announcement of America's poor August trade performance."

Do you believe that is true or false?

Mr. MURPHY. I am really not in a position. I assume it is a correct statement.

Mr. WOLF. So you would——

Mr. MURPHY. I have no personal data to support that. I was not a part of that study.

Mr. WOLF. Do you personally think it is true? I do not want to—I understand you are a career employee—but we cannot get any answers. It just sort of seems, why do we even have a hearing on these issues? You do deal with the public debt, and perhaps they should send somebody—a career person or a political appointee. These are important issues.

Mr. MURPHY. Yes, sir. It is just——

Mr. WOLF. And just to say, "We can't answer them," and "I do not know if that is true.", really does not deal with the question. And this figure is growing. It is $393 billion. That is a lot of money to service our debt. I guess I would feel better if somebody would say, "We are really concerned, and this is what we think we are going to be doing.", or "We want to do this." But I just get a feeling that, "Well, you know, it is not that high. It is only 18 percent." Last

year it was 16.9. Now it is 18. So next year it might be 19. And that is what I am trying to get at.

I will end the questions, because I do not want to put you in a tough spot, and I am not trying to badger you. If it comes across that way, I really apologize, but I am so concerned about this. And I am just wondering, "Is anyone listening down there?" And nobody is coming back.

Do you ever have conversations among yourselves around the coffee machine when this quarterly auction is coming up, wondering if the Japanese may not show up? Has anyone ever said, "I wonder if the Japanese are going to show up."

Mr. GREGG. Certainly we wonder that.

Mr. WOLF. So that is a concern. There has been speculation once or twice about that. That is what I am trying to see. I mean, I just want to know that somebody is really interested. And I apologize sincerely, not in a facetious way. I really do not want to put any of you on the spot. But I think you would agree these are very important issues. And somehow we have to address them.

And someone, I think, has to say, "The king has no clothes." And if no one will say it, then we will continue to watch the parade, and the king will not have any clothes, and we will all kid ourselves and go on and be happy. And then there may be a problem not for us, but maybe for our kids. Do you have children?

Mr. GREGG. Yes, sir.

$50 AND $75 PAYROLL BONDS

Mr. WOLF. And your kids and my kids and our grandkids. And that is why my frustration level is a little bit high in that. Let me cover a couple of other questions. On the savings bond issue. Is it really wise to cut out the $50 savings bond? The $75 one, I understand. But kids buy $50 savings bonds, and I would venture a guess that perhaps you would find that people buying $50 savings bonds are young, or middle or low income individuals. Is it appropriate at the very time that we are talking about increasing savings? And our household savings rates are about 5 percent. In Japan it is about 18 percent. Is it appropriate at this time to wipe that out?

Mr. GREGG. The portion we are taking we do not think will hurt. And the reason I say that is that they are still going to be available for the over-the-counter market. So you can walk into your bank and using RDS still get the $50 bonds. But in the payroll market, what we are doing is discontinuing the $50 and $75. So what it would mean would be an individual who had a payroll deduction and got a $50 bond per month, they would then get a $100 bond in two months. And that is——

Mr. WOLF. No. I guess I have got too much blue collar background in me, but I guess I like the bonds. When I was a kid, I used to get the—was it $18.75 for a $25 bond?

Mr. GREGG. That is right.

Mr. WOLF. And I would like to see them and know that they were there. I want the record to show—I will write a letter to Secretary Brady about this. I think it is absolutely wrong at this time—and you have made the comment that you save $3.1 million to abolish the $50 savings bonds. I just took out bonds. I got the

$100 bond myself. I have five kids. Three were in college. I did not even know that I could afford the $100. I went back and forth, but I thought I ought to do it.

To wipe out that $50 bond at this time when we are telling people to save—you may get a worker who is making $23–$24,000 a year and lives in a mill town in Massachusetts or a textile town in Virginia, the $50 is really what he can afford. And I think you may find that could be a disincentive. What will you do if you find it is a disincentive and that you lost some people who would have saved?

Mr. GREGG. Well, we think that with the phaseout that we started more than two years ago that we really did not see a large drop-off in the volume of bonds. Again, this is only in the payroll market. We have not affected the over-the-counter market. So if someone walked in to the bank, they could still get the $50 bond.

Mr. WOLF. What percentage of people buy bonds over-the-counter versus as a payroll deduction?

Mr. GREGG. In terms of the number of bonds sold, I think the payroll market is probably around 70 percent.

Mr. WOLF. That is what I thought.

Mr. GREGG. But in dollar amounts, it is only about 25–30 percent. So it is not as large a portion of the bonds in terms of the dollar amount sold.

Mr. WOLF. But I think most working class people would take the payroll deduction. I mean, you sort of face it that a lot of people cannot save very much, so they get the money taken out of their paycheck and therefore they never miss it. But if you had to wait until the end of the month and take whatever you have saved, and you buy a bond, it really does not happen. Do you want to say something?

Mr. VERBURG. Mr. Chairman, if I could answer this. Treasury has been looking at this issue, and we are concerned as you are. We are concerned about the cost effectiveness of bonds, and we are concerned about savings also. One of the things we have found in our recent look at this is that there is a tremendous redemption rate in payroll savings bonds in lower denominations, which ends up costing the taxpayers more in terms of sponsoring the bonds.

Mr. WOLF. But that is an indication that these people are living on a fixed income and are having a difficult time.

Mr. VERBURG. It does not prevent them from putting the same amount in and accumulating to $100 bond, though. It just takes a little bit more time in order to accumulate to that size a bond.

Mr. WOLF. Well, I think you are going north when everyone wants to go south. Everyone is talking about savings rates and savings, and you all are trying to make it more difficult. It is kind of simple. It saves money. But I think you literally wipe out any young kid who is working and wants to buy a bond. You certainly wipe out a man or a woman making 23, 24, $25,000.

And we are creatures of habit, and people get used to purchasing $50 bonds. My Dad, God bless him, used to buy the $25 bond. He would buy four $25 bonds, rather than one $100 bond. It is just the way it was. He was a policeman. And so, what are you telling that man or woman out there that lives in that little mill town who has been buying the $50 bond? I think you are going the wrong way.

Mr. GREGG. They will still be available——

Mr. WOLF. Over the counter.

Mr. GREGG [continuing]. On the over-the-counter market. The $50 and the $75 will be available.

Mr. WOLF. Well, I have gone on long enough. I will write the Secretary a letter asking that they keep the $50 bonds.

NATIONAL DEBT—TAX CREDITS

Mr. WOLF. But I will move on. The last question is if I could ask you a favor. Could you look at this request that I sent down? It was from a constituent. It is about the national debt. And I think with your expertise, you will be able to answer it. He comes up with an idea, and I will just read one paragraph and then you can just take it and get back to him.

He says,

Since we cannot put the Government out of business or repudiate the debt, we need another plan. One possible solution is to sell off the national debt as future tax credits instead of raising taxes and putting more dollars in the Federal caucus for debt reduction. Let us sell the debt and give a tax credit of $1.50 for every $1 of debt that is paid off. In addition, we will place some restrictions on how the tax credits can be applied in order that we can have a workable plan for how we will handle the revenue loss in the future.

Could you personally just take a look at this and let me know if you think it is feasible or if it has any merit to it?

Mr. GREGG. Yes, sir.

Mr. WOLF. I thank you very much. I appreciate your coming in. I thank you, Mr. Chairman.

FOREIGN INVESTMENT

Mr. ROYBAL. Mr. Gregg, I think we all realize that the matter of foreign international holdings of the public debt is of great concern to people in the United States. It has been indicated already that in 1989, the debt will be $393.5 billion.

Mr. ROYBAL. That does not include property and other holdings owned by foreign countries or other countries in the United States. Is there such a chart available that would show that?

Mr. GREGG. I do not have that available, but I think that kind of information we can probably come up with.

Mr. ROYBAL. I do not think that that is something that we can actually put in the record, but——

Mr. GREGG. I would be happy to send it to the committee.

Mr. ROYBAL [continuing]. I think Members of the committee would be interested in seeing something like that.

Mr. GREGG. Yes, sir.

Mr. ROYBAL. I would appreciate it if that could be put together.

Mr. GREGG. All right, I will submit that information to you directly at a later date.

Mr. ROYBAL. And we will not include it in the record, unless someone actually insists that it be in the record. Do you have any other questions?

[The information follows:]

DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
WASHINGTON, D.C. 20239-0001

MAR 20 1990

Dear Mr. Roybal:

At our recent hearing on the 1991 budget request for the Bureau of the Public Debt, you requested information on foreign direct investment in the United States. You also requested that the information not be made part of the record of the hearing.

The information you requested is enclosed. The data is preliminary as of December 31, 1989, and will be finalized by the Department of Commerce in June 1990. Foreign direct investment does not include investments in U.S. Treasury Securities.

The information was furnished by the Department of Commerce, Bureau of Economic Analysis.

If I can be of further assistance, please let me know.

Sincerely,

Richard L. Gregg
Commissioner

The Honorable Edward R. Roybal
Chairman, Subcommittee On Treasury,
Postal Service and General Government
Appropriations Committee
House of Representatives
Washington, D.C. 20515

Enclosure

FOREIGN DIRECT INVESTMENT IN THE U.S.---POSITION

TABLE 61

1989

Data is preliminary as of December 31, 1989

In millions of dollars

	ALL INDUSTRIES
	01
ALL COUNTRIES	390,112
CANADA	29,696
EUROPE	257,303
EC-12	232,416
BELGIUM	4,243
FRANCE	17,098
GERMANY	26,916
ITALY	1,493
LUXEMBOURG	1,130
NETHERLANDS	33,637
UNITED KING.	122,854
OTHER EC	3,244
OTHER EUROPE	24,888
SWEDEN	4,653
SWITZERLAND	17,550
OTHER	2,685
JAPAN	66,116
AUST,NZ,S.AFR.	6,450
LATIN AMERICA	20,511
SO & CEN AMER	3,823
PANAMA	3,020
OTHER	2,803
OTH WEST HEMI	14,688
BERMUDA	2,185
NETH ANTILLE	10,600
UK ISL-CARIB	1,100
OTHER	803
MIDDLE EAST	6,475
ISRAEL	528
OTHER	5,948
O AFR,ASIA,PAC	3,361
ADDENDA: OPEC	7,273

Data does not include holdings of U.S. Treasury Securities.

Source: Department of Commerce, Bureau of Economic Analysis

Mr. SKEEN. Yes, Mr. Chairman. Just one question, when we were talking about this debt. What I want to do is clarify so that in my own mind I understand what you are saying. Of the holdings and bonds, the Japanese are the largest as far as foreign nations are concerned, but they are not the heaviest investors in the United States totally. But as far as bond issues are concerned, they are the largest holder of Treasury bonds.

Mr. GREGG. These are all marketable securities—bills, bonds——

Mr. SKEEN. Marketable securities.

Mr. GREGG. Bills, bonds, and notes. They are the largest single country investing in those securities. They constitute about 20 percent of the total foreign purchases if I have my numbers right. But certainly there are large institutions here in the United States that buy billions of dollars in bonds. And I can supply for the record a distribution by financial institutions, insurance companies, and how the whole debt is held, if you would like that, Mr. Skeen.

[The information follows:]

Mr. SKEEN. That would be interesting, because it has been my understanding as far as overall investments in the United States of all types the Japanese represent a very small percentage of that in comparison. The largest are the British and the Dutch.

Mr. GREGG. I believe that is right.

Mr. SKEEN. And I just wanted to get my figures straight about these things. It is a concern to us. But you know, I think we worry—and now I am going to do my own posturing—we worry so much about foreign debt. I would think that we would be relishing the fact that we are so attractive to foreign investors. And I am not worrying about them showing up here. They are very willing to show up here, because we are a good buy. And we are a good investment.

And this is a fungible commodity, and everybody seems to think that if you put a rising sun stamp on a Yen bill it goes through the entire system with the sign on it. It loses its identity the minute it goes into the system and turns over seven times in every one of the communities that it is fed into. We take our share of taxes. The little cities take their taxes out of it. The folks get their pay and so forth.

So I think that somewhere along the line, somebody had better educate us about whether it is a good thing to have foreign investments or not a good thing. In my view, I think that since we helped them all out, they recognize the best place in the world to invest money is here. It is a vote of confidence, rather than one to be really that concerned over.

Thank you very much.

Mr. ROYBAL. Mr. Gregg, I would like to thank you and your colleagues for your testimony and to wish you every success in the plan that you have ahead of you.

Mr. GREGG. Thank you, Mr. Chairman.

[The information and justifications follow:]

U.S. Treasury Securities Outstanding 1/ and Estimated Ownership by Foreigners, 1970-1989

(billions of dollars)

End of Year	Total Treasuries Outstanding	Estimated Foreign Ownership	Percent Owned by Foreigners
1970	401.6	19.8	4.9
1971	435.1	46.1	10.6
1972	461.1	54.5	11.8
1973	481.5	54.7	11.4
1974	504.0	58.8	11.7
1975	587.6	66.5	11.3
1976	664.8	78.1	11.7
1977	729.2	109.6	15.0
1978	797.7	133.1	16.7
1979	852.2	119.0	14.0
1980	936.7	129.7	13.8
1981	1034.7	136.6	13.2
1982	1201.9	149.5	12.4
1983	1415.3	166.3	11.8
1984	1667.4	192.9	11.6
1985	1950.3	224.8	11.5
1986	2218.9	263.4	11.9
1987	2435.2	299.7	12.3
1988	2707.3	362.1	13.4
1989	2975.5	392.9	13.2

1/ Treasury marketable and nonmarketable securities.

Source: Treasury Bulletin, various issues, Tables OFS-1 and OFS-2.

Treasury/ICD
March 15, 1990

Foreign Holdings of U.S. Treasuries
as percent of All Foreign Assets in the U.S. 1973 - 1988

Year	Percent
1973	30.9
1974	29.5
1975	29.6
1976	29.4
1977	35.5
1978	35.8
1979	27.9
1980	25.5
1981	23.4
1982	21.9
1983	20.9
1984	21.7
1985	20.7
1986	19.5
1987	18.7
1988	19.4

Source: International Investment Position of the U.S. Survey of Current Business, Department of Commerce June 1989

Treasury/ICD
March 15, 1990

OWNERSHIP OF FEDERAL SECURITIES

Table OFS-2.--Estimated Ownership of Public Debt Securities by Private Investors

(Par values [1] in billions of dollars. Source: Office of Market Finance)

End of month	Total privately held	Commercial banks [2]	Nonbank investors										
			Total	Individuals [3]			Insurance companies	Money market funds	Corporations [4]	State and local governments [5]	Foreign and international [6]	Other investors [7]
				Total	Savings bonds [8]	Other securities						
1982 - Mar.	733.3	116.1	617.2	112.5	67.5	45.0	32.1	25.7	16.9	99.0	136.1	194.9
June	740.9	116.1	624.8	114.1	67.4	46.7	33.8	22.4	17.6	103.3	137.2	194.4
Sept.	791.2	117.8	673.4	115.6	67.6	48.0	36.6	26.6	21.6	106.0	140.6	209.4
Dec.	848.4	131.4	717.0	116.5	68.3	48.2	44.1	42.6	34.5	115.0	149.5	224.8
1983 - Mar.	906.6	153.2	753.4	118.7	68.8	47.9	49.8	44.8	27.2	123.0	156.2	239.9
June	948.6	171.8	777.0	121.3	69.7	51.6	54.0	29.3	32.8	127.4	160.1	253.1
Sept.	982.7	176.3	806.4	129.0	70.6	58.4	58.5	22.1	33.9	137.0	160.1	263.8
Dec.	1,022.6	188.8	833.8	133.4	71.5	61.9	65.3	22.8	36.7	149.0	166.3	257.3
1984 - Mar.	1,073.0	192.9	880.1	136.2	72.2	64.0	68.1	19.4	42.6	155.9	188.3	294.5
June	1,102.2	186.4	916.8	142.2	72.9	69.3	64.2	14.9	45.3	162.9	171.6	315.7
Sept.	1,154.1	184.6	969.5	142.4	73.7	68.7	58.5	13.6	47.7	170.0	179.6	363.7
Dec.	1,212.5	186.0	1,026.5	143.8	74.5	69.3	64.5	25.9	50.1	173.0	182.9	376.3
1985 - Mar.	1,254.1	187.8	1,066.3	145.1	75.4	69.7	68.5	26.7	50.8	177.0	189.4	390.8
June	1,292.0	201.6	1,090.4	148.7	76.7	72.0	69.1	24.8	54.9	180.3	213.8	388.8
Sept.	1,338.2	203.6	1,134.6	151.4	78.2	73.2	71.4	22.7	59.8	203.0	222.9	404.2
Dec.	1,417.2	198.2	1,219.0	154.8	79.8	75.0	78.5	25.1	66.0	226.7	234.8	430.1
1986 - Mar.	1,473.1	201.7	1,271.4	157.8	81.4	76.4	84.0	28.9	69.6	225.6	232.6	481.9
June	1,502.7	200.6	1,302.1	158.5	83.8	75.7	88.6	22.9	61.2	227.1	250.9	492.0
Sept.	1,553.3	200.9	1,352.4	158.0	87.1	70.9	96.4	24.9	65.7	251.2	265.5	490.7
Dec.	1,602.0	203.5	1,398.5	162.7	92.3	70.4	108.6	29.9	66.8	262.9	263.4	504.6
1987 - Mar.	1,641.4	199.9	1,441.5	162.8	94.7	68.1	107.8	18.9	73.5	264.6	272.6	541.2
June	1,657.7	199.4	1,458.3	166.2	96.8	69.4	104.0	20.8	76.7	268.7	281.1	538.0
Sept.	1,682.6	205.2	1,477.4	167.0	98.9	68.0	104.6	18.5	81.8	273.0	278.9	554.0
Dec.	1,748.2	201.5	1,543.7	171.3	101.1	70.2	104.9	14.8	84.8	284.6	299.7	584.0
1988 - Mar.	1,778.2	203.3	1,574.9	176.7	104.0	72.7	r109.9	15.2	86.3	291.4	292.5	r588.9
June	1,784.9	199.3	1,585.6	180.1	106.2	73.9	r103.8	13.4	87.6	297.2	345.4	r558.1
Sept.	1,818.0	198.2	1,619.8	r182.5	107.8	r75.0	r105.1	11.1	85.9	305.7	345.9	r583.3
Dec.	1,882.8	193.8	1,689.0	r186.0	109.8	r76.4	r107.3	11.8	r87.1	315.6	362.1	r601.1
1989 - Mar.	1,900.2	200.9	1,699.3	r190.6	112.2	r87.4	r107.4	13.0	r90.6	320.4	375.8	692.7
June	1,905.4	r199.2	r1,706.2	r206.5	114.0	r92.5	r106.3	r11.3	r92.1	322.1	367.8	608.0
Sept.	1,964.0	r181.5	1,772.5	r207.8	116.7	r92.1	r107.7	r12.9	r93.6	p 325.2	r363.5	631.9
Dec.	2,011.0	p190.0	1,821.0	p 209.2	117.7	p 91.5	n.a.	p14.4	p 93.8	n.a.	p 362.9	n.a.

[1] U.S. savings bonds, series A-F and J, are included at current redemption value.
[2] Includes domestically chartered banks, U.S. branches and agencies of foreign banks, New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.
[3] Includes partnerships and personal trust accounts.
[4] Includes U.S. savings notes. Sales began May 1, 1967, and were discontinued June 30, 1970.
[5] Exclusive of banks and insurance companies.
[6] Includes State and local pension funds.
[7] Consists of the investment of foreign balances and international accounts in the United States. Estimates reflect 1979 benchmark through December 1984 and 1984 benchmark by data.
[8] Includes savings and loan associations, credit unions, nonprofit institutions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain Government deposit accounts, and Government-sponsored agencies.

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

FY 91 Object Class and Activity Break-out does not agree with schedules contained in the President's Budget. Blues and Whites provide more recent and accurate estimates.

erratum

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	PERMANENT POSITIONS	FTE	Amount (000)
FY 1990 Appropriation (P.L 101-138) enacted in Treasury Bill	2,351	2,219	$207,906
Adjustments:			
FY 1990 Reclasions (P.L. 101-164) enacted in Transportation Bill	0	0	(14,000)
FY 1990 Authorized Level	2,351	2,219	$193,906
FY 1991 Estimate	2,354	2,227	$175,139

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in thousands)

	Actuals		Authorized Level		Budget Estimate		Increase (+) or Decrease (-) for 1991					
	FY 1989		FY 1990		FY 1991		Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Processing and accounting for:												
(a) Savings securities	1,129	99,987	1,144	100,865	1,152	110,554	8	1,989	8	584	0	1,405
(b) Marketable and special securities	826	43,819	823	43,101	823	44,100	0	1,005	0	(100)	0	1,105
(c) Reimbursement to Federal Reserve Banks	0	55,464	0	23,236	0	0	0	(23,236)	0	(23,236)	0	0
Subtotal Activity I	1,955	199,270	1,967	174,902	1,975	154,680	8	(20,242)	8	(22,832)	0	2,890
2. Promotion of the sale of savings-type securities	252	18,802	252	19,004	252	20,479	0	1,475	0	706	0	769
Unobligated balance	0	0	0	0	0	0	0	0	0	0	0	0
Total appropriation, authorized level and budget estimate	2,207	218,072	2,219	193,906	2,227	175,139	8	(18,767)	8	(22,126)	0	3,359
Permanent positions established	2,305	0	2,351	0	2,354	0	3	0	3	0	0	0

SUMMARY EXPLANATION OF FISCAL YEAR 1991 CHANGES REQUESTED

(Dollars in thousands)

	Activity 1 Savings Securities			Activity 2 Marketable Securities			Activity 3 Federal Reserve Banks Reimbursable			Sub-Total			Activity 4 Promoting the Sale of Savings Bonds			Total		
	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount
Program Changes:																		
1. Regional Delivery System (RDS)	3	3	4,129	0	0	0	0	0	0	3	3	4,129	0	0	0	3	3	4,129
2. Series E/EE Savings Bond Automation (SEAS)	0	5	231	0	0	0	0	0	0	0	5	231	0	0	0	0	5	231
3. Public Debt Accounting and Reporting System (PARS)	0	0	0	0	0	235	0	0	0	0	0	235	0	0	0	0	0	235
4. Education Bond Brochures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	900	0	0	900
5. Federal Reserve Bank Reimbursements	0	0	0	0	0	0	0	0	(23,236)	0	0	(23,236)	0	0	0	0	0	(23,236)
6. Elimination of $50/$75 payroll savings bonds	0	0	(3,352)	0	0	0	0	0	0	0	0	(3,352)	0	0	0	0	0	(3,352)
7. Program reductions to Offset Pay Costs and Other Absorptions:																		
o Travel	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(30)	0	0	(30)
o Printing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(54)	0	0	(54)
o Contracts	0	0	(415)	0	0	(415)	0	0	0	0	0	(830)	0	0	(80)	0	0	(910)
o Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(30)	0	0	(30)
Total, Program Changes	3	8	564	0	0	(180)	0	0	(23,236)	3	8	(22,852)	0	0	706	3	8	(22,126)
Other Changes:																		
Adjustments Necessary to Maintain Current Levels:																		
1. Annualization of FY 1990 Pay Act Increases	0	0	328	0	0	201	0	0	0	0	0	529	0	0	100	0	0	629
2. Increased Cost for Proposed FY 1991 Pay Raise	0	0	982	0	0	602	0	0	0	0	0	1,584	0	0	300	0	5	1,884
3. Increased Costs for ES/GS pay raise (P.L. 101-194)	0	0	81	0	0	49	0	0	0	0	0	130	0	0	25	0	0	155
4. Increased Cost for Additional Compensable Day	0	0	143	0	0	87	0	0	0	0	0	230	0	0	41	0	0	271
5. Increased Cost of Health Insurance	0	0	101	0	0	99	0	0	0	0	0	200	0	0	95	0	0	304
6. Increased Cost of CSRS and FERS	0	0	11	0	0	11	0	0	0	0	0	29	0	0	10	0	0	30
7. Decreased Cost of Workers Compensation	0	0	(113)	0	0	(69)	0	0	0	0	0	(182)	0	0	(1)	0	0	(183)
8. Increased Cost of Travel and Transportation of Persons	0	0	11	0	0	11	0	0	0	0	0	28	0	0	42	0	0	70
9. Increased Cost of Transportation of Things	0	0	12	0	0	8	0	0	0	0	0	20	0	0	3	0	0	23
10. Decreased Cost of Rent, Communications & Utilities	0	0	(195)	0	0	(119)	0	0	0	0	0	(314)	0	0	(26)	0	0	(340)
11. Increased Cost of Printing and Reproduction	0	0	115	0	0	71	0	0	0	0	0	186	0	0	129	0	0	315
12. Increased Cost of Other Services	0	0	288	0	0	176	0	0	0	0	0	464	0	0	78	0	0	542
13. Increased Cost of Supplies and Materials	0	0	57	0	0	35	0	0	0	0	0	92	0	0	5	0	0	97
14. Increased Cost of Equipment	0	0	66	0	0	41	0	0	0	0	0	107	0	0	5	0	0	112
Subtotal, Adjustments Necessary to Maintain Current Levels	0	0	1,090	0	0	1,202	0	0	0	0	0	3,191	0	0	798	0	0	3,930

SUMMARY EXPLANATION OF FISCAL YEAR 1991 CONGRESS REQUESTED

(Dollars in thousands)

	Activity 1 Savings Securities			Activity 2 Marketable Securities			Activity 3 Federal Reserve Banks Reimbursable			Sub-Total			Activity 4 Promoting the Sale of Savings Bonds			Total		
	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount
Adjustments Necessary to Meet Changes in Workload:																		
1. Savings Bond Workload	0	0	3,210	0	0	0	0	0	0	0	0	3,210	0	0	0	0	0	3,210
2. A-76 Adjustment	0	0	301	0	0	104	0	0	0	0	0	405	0	0	0	0	0	405
Subtotal, Adjustments Necessary to Maintain Changes in Workload	0	0	3,511	0	0	104	0	0	0	0	0	3,615	0	0	0	0	0	3,615
Reductions, Nonrecurring Costs, and Savings:																		
1. Nonrecurring Costs:																		
Equipment	0	0	(23)	0	0	(80)	0	0	0	0	0	(83)	0	0	0	0	0	(83)
ADP Contract	0	0	(142)	0	0	(141)	0	0	0	0	0	(283)	0	0	0	0	0	(283)
2. Savings:																		
Issuing Agent Fees - EBB	0	0	(3,000)	0	0	0	0	0	0	0	0	(3,000)	0	0	0	0	0	(3,000)
Subtotal, reductions, nonrecurring costs and savings	0	0	(4,065)	0	0	(391)	0	0	0	0	0	(4,356)	0	0	0	0	0	(4,356)
Total, Other Changes	0	0	1,446	0	0	1,105	0	0	0	0	0	2,550	0	0	789	0	0	3,339
Total, Increases or decreases compared with FY 1990 Authorized Level	3	0	1,500	0	0	1,000	0	0	(21,230)	3	0	(19,342)	0	0	1,475	3	0	(16,767)

Department of the Treasury

Federal Funds

General and Special Funds:

ADMINISTERING THE PUBLIC DEBT

For necessary expenses connected with any public-debt issues of the United States; [$207,906,000] $175,139,000. (Treasury Department Appropriations Act, 1990.)

DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full Time Equivalent Positions)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Increase/Decrease for FY 1991: Total Changes	Program Changes	Other
Managerial and Administrative Direction	217	217	217	--	--	--
Accounting and Budgeting	91	94	94	--	--	--
Accounting Technicians	231	231	234	3	3	--
ADP personnel	281	281	286	5	5	--
Management Analysts and Technicians	29	29	29	--	--	--
Financial Program Analysts	33	33	33	--	--	--
Claims Examiners	211	211	211	--	--	--
Personnel Management and Procurement	50	50	50	--	--	--
General Administrative and Office Services	119	120	120	--	--	--
Typists(including clerk typists), Stenographers and Secretaries	409	412	412	--	--	--
Other Machine Operators	80	80	80	--	--	--
Laborers	44	44	44	--	--	--
Sales Promotion	152	152	152	--	--	--
Miscellaneous Occupations	180	180	180	--	--	--
Subtotal	2,107	2,114	2,122	8	8	0
Part-time and temporary Full Time Equivalent positions	100	105	105	-	-	-
Total Full Time Equivalent positions	2,207	2,218	2,227	8	8	0

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DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate
Senior Executive Service Level 6.....	0	0	0
Senior Executive Service Level 5.....	1	1	1
Senior Executive Service Level 4.....	6	6	6
Senior Executive Service Level 3.....	4	4	4
Senior Executive Service Level 2.....	1	1	1
Senior Executive Service Level 1.....	0	0	0
Subtotal.....	12	12	12
GS/GM-15.....	32	33	33
GS/GM-14.....	69	71	71
GS/GM-13.....	124	130	130
GS-12.....	299	296	296
GS-11.....	117	128	128
GS-10.....	17	16	16
GS-9.....	171	174	174
GS-8.....	67	67	67
GS-7.....	209	213	213
GS-6.....	226	239	242
GS-5.....	268	278	278
GS-4.....	292	292	292
GS-3.....	292	292	292
GS-2.....	66	66	66
Subtotal.....	2,251	2,297	2,300
Ungraded.....	42	42	42
Total permanent positions.....	2,305	2,351	2,354
Unfilled positions, end-of-year.....	(110)	(85)	(85)
Total permanent employment, end-of-year	2,195	2,266	2,269

Standard Classification Schedule
(Direct Obligations Only)
(Dollars in thousands)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
TOTAL NUMBER OF PERMANENT POSITIONS	2,305	2,351	2,354	3
AVERAGE PAID EMPLOYMENT (FTE) workyears	2,207	2,319	2,327	8
Object Classification				
Personnel compensation:				
Permanent positions	$55,735	$57,446	$60,047	$2,603
Positions other than permanent	632	1,577	1,641	64
Other personnel compensation	2,694	2,880	3,201	321
Total personnel compensation	59,061	61,901	64,889	2,988
Personnel benefits	10,009	11,041	11,698	657
Benefits for former personnel	0	80	80	0
Travel and transportation of persons	1,178	1,331	1,381	50
Transportation of things	921	972	975	3
Rent, communications & utilities:				
Standard level user charges	6,041	6,170	6,442	217
Rental Payments to others	3,053	2,072	2,163	91
Other rent, communications & utilities	18,075	19,627	19,548	10
Printing & reproduction	4,941	4,498	6,691	2,193
Other services	110,533	81,702	58,666	(23,036)
Supplies & materials	1,724	1,834	1,931	97
Equipment	3,508	3,673	3,672	24
Lands and Structures	2	0	0	0
Insurance claims & indemnities	0	5	5	0
Total Obligations	218,072	193,906	175,139	(18,706)
Unobligated balance lapsing	0	0	0	0
Total actual obligations, proposed authorized level, and budget estimate	218,072	193,906	175,139	(18,706)

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	PERMANENT POSITIONS	FTE	Amount (000)
FY 1990 Appropriation (P.L 101-136) enacted in Treasury Bill	2,070	1,987	$188,902
Adjustments:			
FY 1990 Rescissions (P.L. 101-164) enacted in Transportation Bill	0	0	(14,000)
FY 1990 Authorized Level	2,070	1,987	$174,902
FY 1991 Estimate	2,073	1,975	$154,660

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in thousands)

	Actuals		Authorized Level		Budget Estimate		Increase (+) or Decrease (-) for 1991					
	FY 1989		FY 1990		FY 1991		Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Processing and accounting for:												
(a) Savings securities	1,129	99,987	1,144	108,885	1,152	110,554	8	1,989	8	884	0	1,405
(b) Marketable and special securities	838	43,819	823	43,101	823	44,108	0	1,008	0	(180)	0	1,188
(c) Reimbursement to Federal Reserve Banks	0	55,464	0	23,236	0	0	0	(23,236)	0	(23,236)	0	0
Unobligated balance	0	0	0	0	0	0	0	0	0	0	0	0
Total appropriation, authorized level and budget estimate	1,966	199,270	1,967	174,902	1,975	154,660	8	(20,242)	8	(22,632)	0	2,590
Permanent positions established	2,016	0	2,070	0	2,073	0	3	0	3	0	0	0

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

SUMMARY EXPLANATION OF FISCAL YEAR 1991 CHANGES REQUESTED

(Dollars in thousands)

	Activity 1 Savings Securities			Activity 2 Marketable Securities			Activity 3 Federal Reserve Banks Reimbursable			Total		
	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount
Program Changes:												
1. Regional Delivery System (RDS)	3	3	4,129	0	0	0	0	0	0	3	3	4,129
2. Series E/EE Savings Bond Automation (SEAS)	0	5	231	0	0	0	0	0	0	0	5	231
3. Public Debt Accounting and Reporting System (PARS)	0	0	0	0	0	235	0	0	0	0	0	235
4. Federal Reserve Bank Reimbursements	0	0	0	0	0	0	0	0	(23,236)	0	0	(23,236)
5. Elimination of $50/$75 payroll savings bonds	0	0	(3,352)	0	0	0	0	0	0	0	0	(3,352)
6. Program reductions to Offset Pay Costs and Other Absorptions:												
a Contracts	0	0	(415)	0	0	(415)	0	0	0	0	0	(830)
Total, Program Changes	3	0	594	0	0	(180)	0	0	(23,236)	3	0	(22,832)
Other Changes:												
Adjustments Necessary to Maintain Current Levels:												
1. Annualization of FY 1990 Pay Act Increases	0	0	328	0	0	201	0	0	0	0	0	529
2. Increased Cost for Proposed FY 1991 Pay Raise	0	0	992	0	0	992	0	0	0	0	0	1,984
3. Increased Costs for ES/SES pay raise (P.L. 101-194)	0	0	81	0	0	49	0	0	0	0	0	130
4. Increased Cost for Additional Compensable Day	0	0	143	0	0	87	0	0	0	0	0	230
5. Increased Cost of Health Insurance	0	0	161	0	0	98	0	0	0	0	0	259
6. Increased Cost of CSRS and FERS	0	0	17	0	0	11	0	0	0	0	0	28
7. Decreased Cost of Workers Compensation	0	0	(153)	0	0	(99)	0	0	0	0	0	(192)
8. Increased Cost of Travel and Transportation of Persons	0	0	17	0	0	11	0	0	0	0	0	28
9. Increased Cost of Transportation of Things	0	0	10	0	0	9	0	0	0	0	0	19
10. Decreased Cost of Rent, Communications & Utilities	0	0	(195)	0	0	(119)	0	0	0	0	0	(314)
11. Increased Cost of Printing and Reproduction	0	0	115	0	0	71	0	0	0	0	0	186
12. Increased Cost of Other Services	0	0	288	0	0	176	0	0	0	0	0	464
13. Increased Cost of Supplies and Materials	0	0	53	0	0	35	0	0	0	0	0	92
14. Increased Cost of Equipment	0	0	66	0	0	41	0	0	0	0	0	107
Subtotal, Adjustments Necessary to Maintain Current Levels	0	0	1,999	0	0	1,202	0	0	0	0	0	3,101

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SUMMARY EXPLANATION OF FISCAL YEAR 1991 CHANGES REQUESTED

(Dollars in Thousands)

	Activity 1: Savings Securities			Activity 2: Marketable Securities			Activity 3: Federal Reserve Banks Reimbursable			Total		
	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount	Perm Pos.	FTE	($000) Amount
Adjustments Necessary to Meet Changes in Workload:												
1. Savings Bond Workload	0	0	3,210	0	0	0	0	0	0	0	0	3,210
2. A-76 Adjustment	0	0	301	0	0	104	0	0	0	0	0	405
Subtotal, Adjustments Necessary to Maintain Changes in Workload	0	0	3,511	0	0	104	0	0	0	0	0	3,615
Reductions, Nonrecurring Costs, and Savings:												
1. Nonrecurring Costs:												
Equipment	0	0	(23)	0	0	(60)	0	0	0	0	0	(83)
ADP Contract	0	0	(142)	0	0	(141)	0	0	0	0	0	(283)
2. Savings:												
Issuing Agent Fees - DDS	0	0	(3,900)	0	0	0	0	0	0	0	0	(3,900)
Subtotal, reductions, nonrecurring costs and savings	0	0	(4,065)	0	0	(201)	0	0	0	0	0	(4,266)
Total, Other Changes	0	0	1,446	0	0	1,105	0	0	0	0	0	2,551
Total, Increases or decreases compared with FY 1990 Authorized Level	3	0	1,909	0	0	1,005	0	0	(23,236)	3	0	(20,242)

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

The Bureau of the Public Debt is responsible for administering the laws and regulations pertaining to public debt financing and operations within the framework of policies established by the Secretary of the Treasury. Public Debt's primary activities are the issuance, servicing, and retirement of public debt securities and accounting for public debt and its related interest cost. It also is responsible for the conduct or direction of transactions in public issues of those Government agencies for which the Treasury acts as agent.

Current funding provides for:

- o the direct operating costs for salaries and expenses;
- o the payment of fees at stipulated rates to financial institutions and others for the processing of savings bonds transactions;
- o the payment of postage and registry fees to the U.S. Postal Service for delivering securities; and
- o ensuring that the investor protection, market liquidity, and market efficiency goals of the Government Securities Act are met.

The FY 1991 funding request for the Bureau of the Public Debt is $154,660,000 and 1,975 FTE positions. The net change in resource requirements in FY 1991 is a decrease of $20,242,000 and an increase of 8 FTE positions as detailed below:

	BUREAU OF THE PUBLIC DEBT
Program Changes.....	($22,832,000)
Increases to Maintain Current Levels.....	3,161,000
Workload changes.....	3,695,000
Decreases for productivity and nonrecurring costs.....	(4,266,000)
	($20,242,000)

This funding request reflects a $23,236,000 reduction in appropriated reimbursements to the Federal Reserve Banks (FRB). Legislation will be proposed to establish a permanent indefinite account from which Public Debt would reimburse the FRBs for services performed as fiscal agents. The FRBs have provided valuable services to Public Debt over a long period of time. This arrangement has been fundamental to Public Debt in accomplishing its mission and it has resulted in significant savings to taxpayers. In FY 1991, Public Debt will continue to obtain services from the FRBs in support of administering the public debt.

1. Processing and Accounting Operations

a. Savings Securities

This program includes the issuing, servicing, and retiring of savings securities. Series EE Savings bonds constitute the major workload in this activity. These are low denomination bonds sold in large volume and registered in the owner's name. Most of these savings bonds are issued through a nationwide network of over 45,000 agents. Functions of this program include the following:

- o prescribing the specifications for ordering, storing and distributing security stock;
- o issuing securities directly and through the Federal Reserve Banks and other agents;

- establishing and maintaining records of the registration and status of each security;
- replacing lost, stolen, mutilated, or destroyed securities;
- maintaining accounts of individual owners of Series H/HH current income savings bonds and authorizing payment of semi-annual interest;
- auditing and recording redeemed securities;
- destroying retired securities;
- maintaining custody of microfilm copies of sales records and retired securities;
- authorizing payment of fees to agents for the issuance and redemption of savings bonds; and
- maintaining accounting control over financial and security transactions, interest costs, and the accountability of the Federal Reserve Banks and branches for savings securities.

1991 Savings Securities Program

In its 1989 Long-Range Strategic Plan, Public Debt reaffirmed its commitment to improving the cost-effectiveness of the Savings Bond Program. As part of this effort Public Debt has two new programs underway.

The first initiative, formerly known as the Ohio Project, is Public Debt's Regional Delivery System (RDS), which centralizes the issuance of over-the-counter bond sales at regional issue centers. Potential benefits and savings from this program include:

- reducing the number of agents actually issuing bonds from more than 45,000 to 12 Federal Reserve sites and a small number of commercial banks;
- lowering fees paid to agents;
- providing automated input for issue transactions; and
- improving cash management.

An evaluation of the pilot project conducted in FY 1988 and FY 1989 established the potential benefits achievable with full implementation. The RDS will be phased in on a nationwide basis through FY 1992. Our projection is that one-half of the potential agents will be participating in RDS by the end of FY 1991. Public Debt has identified a need in FY 1991 of $4,120,000 and 3 FTE for RDS to cover program start-up costs primarily for systems development, postage, printing and returned stock reconciliation. These costs will be partially offset by $3.9 million in anticipated savings from reduced issuing agent fees.

Second, as a continuation of the FY 1990 initiative, we are requesting 5 FTE and $231,000 for the Series E/EE Savings Bond automation effort, known as Project SEAS. This initiative remains as one of Public Debt's highest priorities to replace a 30 year old microfilm based system with a completely new and up-to-date processing environment for Series E/EE savings bonds. SEAS will, for the first time, truly automate our savings bond processing and will combine other efforts (such as E-Z Clear and the Regional Delivery System) into an integrated and cohesive nationwide processing system.

Public Debt remains committed to preserving the integral role that savings bonds play in Federal debt financing. This commitment is reflected in the 1989 Long-Range Strategic Plan, which recognizes the role savings bonds play in providing a safe and convenient savings mechanism to a large segment of the population. In FY 1991 Public Debt expects to sell 91 million savings bonds, a net reduction of 13.5 million over the FY 1990 revised estimate of 104.5 million pieces. This decrease has resulted from the total elimination of the $50 and $75 denomination savings bonds in the payroll sector.

We expect to redeem 69 million savings bonds in FY 1991. In addition to the increase in redemption volume, a significant increase in related servicing workload is projected. Public Debt anticipates the servicing transaction volume will increase from 3,880,000 in FY 1990 to 4,098,000 in FY 1991. Based on the projected increase in redemptions, Public Debt is requesting $3,210,000 for additional payments to paying agents for their services, and to meet increased postage costs.

b. Marketable and Special Securities.

This program includes the issuing and servicing of marketable and special Treasury securities, which make up 96% of the outstanding public debt. All new marketable securities are issued in book-entry form and attract a broad spectrum of investors including private citizens, corporate and foreign investors, and state and local governments. The functions of this activity include:

- o conducting auctions and making allotments;
- o issuing securities directly and through the Federal Reserve Banks;
- o maintaining registered and book-entry security accounts and authorizing payments for interest, discount, and principal;
- o adjudicating claims on lost, stolen, or destroyed securities;
- o conducting transactions on outstanding securities including exchanges, transfers, and redemptions;
- o receiving, auditing, recording, storing, and destroying redeemed definitive securities and interest coupons;
- o maintaining control over public debt financial transactions in marketable and special securities; and

- implementing rules governing the trading and sale of Treasury securities in the secondary market.

1991 Marketable and Special Securities Program

Marketable and special securities provide the Treasury with the major portion of the funds needed to meet Treasury borrowing requirements for new cash or to refund maturing obligations.

The marketable portion of the debt rose by 151 percent from FY 1976 through FY 1983. It has increased at a steady rate of 15 to 17 percent annually from FY 1984 through the present. In addition, the amount of State and Local Government Series Securities has increased by 283 percent from FY 1984 through FY 1989.

Full funding of Public Debt's FY 1991 budget request in the Marketable and Special Securities Program will enable the Public Debt to:

- provide orderly and efficient marketing and processing of Treasury bills, bonds, and notes;
- pursue new initiatives to improve productivity and enhance controls; and
- continue to provide a high level of service to investors.

Additional resources are requested in two areas of the marketable program in FY 1991. The first requested increase relates to a fundamental mission responsibility of accounting for the public debt and related interest costs. A new system which will significantly improve our ability to account for the public debt has been in development for the past few years. This system, the Public Debt Accounting and Reporting System (PARS), is scheduled for implementation in FY 1991. Public Debt has arranged to complete this project in coordination with the Federal Reserve Bank of Cleveland.

PARS will:

- account for and balance public debt securities and daily financial transactions in a timely manner;
- significantly strengthen internal controls and achieve compliance with required accounting standards; and
- simplify reporting requirements for Federal Reserve Banks.

Public Debt is requesting an increase of $235,000 in FY 1991 to fund 6 overtime staff years to complete the implementation of PARS.

Department of the Treasury

BUREAU OF THE PUBLIC DEBT

Federal Funds

General and Special Funds:

ADMINISTERING THE PUBLIC DEBT

For necessary expenses connected with any public-debt issues of the United States; [$207,906,000] $175,139,000. (Treasury Department Appropriations Act, 1990.) 1/

1/ This request includes the U.S. Savings Bond Division.

ACCOUNTING FOR PUBLIC DEBT
Issues of the Public Debt

SELECTED WORKLOAD DATA

(In thousands of pieces)

Activity and Principal Workload Factors	1989 Actual	1990 Authorized	1991 Estimate	Percent Increase or Decrease (1991 over 1990)
Borrowing and servicing for:				
1. Savings securities:				
Sales	95,976	104,500	91,000	
Reissues and claims	4,866	7,160	7,160	
Total issues	100,842	111,660	98,160	-14.0%
Redemptions	65,917	62,000	69,000	
Reissues, claims, and spoils	8,525	13,000	28,120	
Total redemptions	74,442	75,000	97,120	23.0%
2. Marketable Securities and Special Securities:				
a. Investor accounts established at Treasury:				
Security Accounts Opened (Original issue):				
TREASURY DIRECT Book-Entry	2,472	2,573	2,132	
State & Local Government Series	20	20	20	
Total Accounts opened	2,492	2,593	2,152	-20.0%
Accounts on hand (end of year):				
TREASURY DIRECT Book-Entry	1,731	2,100	2,354	
Registered Accounts	320	309	303	
State and Local Government Series	109	125	125	
Total Accounts on hand (end of year)	2,160	2,494	2,922	15.0%
b. Definitive Securities (pieces):				
Savings:				
Securities Issued	68	60	48	
Securities Retired	89	55	45	
Redemptions	280	234	168	
Total Activity - Marketable Treasury Securities in definitive form	437	349	257	-31.0%
3. Commercial Book-entry transactions	8,111	7,299	8,109	11.0%

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DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full Time Equivalent Positions)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Increase/Decrease for FY 1991: Total Changes	Program Changes	Other
Managerial and Administrative Direction	210	210	210	—	—	—
Accounting and Budgeting	91	94	94	—	—	—
Accounting Technicians	230	220	223	3	3	—
ADP personnel	281	281	288	8	8	—
Management Analysts and Technicians	29	29	29	—	—	—
Financial Program Analysts	33	33	33	—	—	—
Claims Examiners	211	211	211	—	—	—
Personnel Management and Procurement	80	80	80	—	—	—
General Administrative and Office Services	100	100	100	—	—	—
Typists(including check typists), Stenographers and Secretaries	388	388	388	—	—	—
Other Machine Operators	89	89	89	—	—	—
Laborers	44	44	44	—	—	—
Sales Promotion	0	0	0	—	—	—
Miscellaneous Occupations	156	159	159	—	—	—
Subtotal	1,942	1,970	1,970	0	0	0
Part-time and Temporary Full Time Equivalent positions	93	97	97	-	-	-
Total Full Time Equivalent positions	1,955	1,967	1,975	8	8	0

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVEL AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the Bureau of the Public Debt proposes the following adjustments in the FY 1990 spending ($000):

	Object Classification	Original President's Budget	+ or - Congressional Appropriation	+ or - Proposed Reprogramming	Proposed Authorized Level
11.0	Total Pers.compens.....	80,995	0	1,181	82,176
12.1	Personnel Benefits.....	9,382	0	79	9,461
13.0	Benefits Form. Pers.....	80	0	0	80
21.0	Total Travel.....	822	0	0	822
22.0	Total Transportation	494	0	(12)	482
23.1	GSA Rent.....	4,926	0	0	4,926
23.2	Other Rent.....	2,072	0	0	2,072
23.3	Total Comm. & Util.....	17,845	0	1,407	19,452
24.0	Printing	3,222	0	(371)	2,851
25.0	Total Other Services.....	130,689	(50,410)	(486)	79,793
26.0	Total Supplies.....	2,190	0	(456)	1,734
31.0	Total Equipment.....	3,695	0	(1,147)	2,548
32.0	Lands and Structures.....	0	0	0	0
42.0	Insurance Claims	0	0	5	5
	Total.....	225,312	(50,410)	0	174,902
	ACTIVITY				
	Savings and Retirement Securities	100,561	0	4	100,565
	Marketable and Special Securities	47,470	0	1,631	49,101
	Federal Reserve Banks	75,281	(50,410)	(1,635)	23,236
	Total.....	225,312	(50,410)	0	174,902

1/29/90

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

Explanation of Congressional Action

The FY 1990 Appropriation is $50.4 million less than the FY 1990 President's Budget Request. This is a net adjustment resulting from Conference Action ($36,410,000) reduction to Federal Reserve Bank Reimbursements and a $14,000,000 rescission included in P.L. 101-164, Department of Transportation's Appropriation Bill.

Explanation of Reprogramming

Due to changes in cost estimates, the Bureau of the Public Debt proposes to adjust the FY 1990 object class expenditures submitted to the Congress in the FY 1990 Budget, by redirecting funds internally to cover an additional 1.6% for the FY 1990 pay raise. This resulted in increased costs for personnel compensation and related benefits. Additionally, the Public Debt will redirect funds to cover the increase in postage costs. This increase is a result of implementation of the Regional Delivery System (RDS), introduction of the new College Bonds and increased shipments of Savings stock and Redemption Tables.

Public Debt reprogrammed $2,672,000 and redistributed $1,181,000 to Personnel Compensation, $79,000 to Benefits, $1,407,000 to Communications, Utilities, and Miscellaneous Charges (for increased postage costs) and $5,000 to cover any Insurance Claims and Indemnities that may arise. The redistribution of funds was derived primarily from:

o Transportation of Things	$ 12,000
o Printing and Reproduction	571,000
o Other Services	486,000
o Supplies and Materials	456,000
o Equipment	1,147,000
Total	$ 2,672,000

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

EXPLANATION OF FISCAL YEAR 1991
BUDGET INCREASES AND DECREASES

In FY 1991, the request for Public Debt of the Public Debt is $154,660,000 and 1,975 full time equivalent positions. Total increases of $11,442,000 are offset by $31,604,000 in program reductions and non-recurring expenses; resulting in a net decrease of $20,242,000 over the FY 1990 funding level of $174,902,000.

PROGRAM CHANGES

Total Requested Program Changes	$(22,832,000)	8 FTE Pos.
1. Regional Delivery System (RDS)	$ 4,120,000	3 FTE Pos.

A program increase of $4,120,000 and 3 FTE positions is requested for this activity. This initiative supports Public Debt of the Public Debt's long-range plan to develop a new delivery system for the Series E/EE Savings Bond sold over-the-counter (OTC). This program is designed to streamline the administration of the Savings Bonds program, and reduce the costs of processing savings bond transactions. Financial institutions will receive customer orders and forward them to a regional processing site (Federal Reserve Bank) where the bonds will be issued and mailed.

A pilot was successfully tested in the state of Ohio, and it is anticipated that by the end of FY 1991, 50 percent of the approximately 45,000 issuing agents will be under the Regional Delivery System (RDS) program. When fully implemented, RDS will significantly improve cash management and reduce operating costs of the Savings Bond program by a total

$6.4 million. The additional resources requested for this initiative will result in a $3.9 million savings in FY 1991, as a direct result of this project.

The funding for this program increase by object class is:

Personnel Compensation and Benefits	$ 75,000
Printing and Reproduction	1,100,000
Travel	10,000
Postage	2,700,000
Other Services	235,000
Total	$ 4,120,000

2. Series E/EE Savings Bond Automation (SEAS)..... $ 231,000
5 FTE Pos.

A program increase of $231,000 and 5 FTE positions is requested for this activity in FY 1991. These resources fund second year costs necessary to continue designing a new Series E/EE bond system.

The Series E/EE System is a microfilm-based system with a tape-oriented, batch retrievable index that accounts for accrual type savings bonds by maintaining records of all issue and retirement transactions.

The Series E/EE Savings Bond System redesign will replace an outdated 30 year old system, enabling Public Debt to provide a broad range of customer services and adequately control savings bonds accounts. The upgrade will allow all of the potential benefits of current projects such as E-Z Clear and RDS to be fully realized.

The 5 additional FTE are based on Public Debt of the Public Debt's plan to guide and manage the redesign project, including budget and staffing levels. The new system will 1) provide operational capabilities that will streamline savings bonds processing thereby enhancing its cost effectiveness; 2) provide greater flexibility to incorporate new technologies in the future; and 3) employ the most effective and efficient technology to satisfy information requirements.

The funding for this program increase by object class is:

Personnel Compensation and Benefits.....	$ 231,000
Total.....	$ 231,000

3. Public Debt Accounting and Reporting System (PARS)..... $ 235,000

A program increase of $235,000 and 6 overtime staff years is requested for this activity in FY 1991 to address the automated enhancement efforts for the Office of Security and Accounting Services. The Public Debt Accounting and Reporting System (PARS) will be implemented to account for and balance public debt securities and financial transactions, produce accurate and more timely information, and strengthen accounting controls. The system will simplify reporting requirements for Federal Reserve Banks, provide additional access to accounting information, and improve Public Debt operations.

The PARS system will have a significant impact on Public Debt, and its communication link with Federal Reserve Banks, and will improve the timeliness and accuracy of data exchange and reconciliation. The resulting accounting system will fully comply with the General Accounting Office accounting principles and standards. This request is critical to the successful implementation of a fully integrated system to account for the public debt.

Additional funding requirements of $235,000 are needed primarily to cover overtime which will be needed for system testing and implementation, and to print system documentation for use by all the Federal Reserve Banks. Overtime funding is requested because permanent FTE will not be required once the PARS System is implemented.

The funding for this program increase is:

Personnel Compensation and Benefits	$ 220,000
Transportation of Things	15,000
Total	$ 235,000

4. FRB Reimbursements..... ($23,236,000)

This represents reimbursement to the Federal Reserve Banks in FY 1990 that is being reduced in FY 1991. Legislation will be proposed to establish a permanent, indefinite appropriation from which to reimburse the Banks beginning in FY 1991.

5. Eliminate $50/$75 Payroll Savings Bonds..... ($3,352,000)

This reduction results from eliminating low denomination ($50/75) payroll savings bond for current enrollees. Low denomination bonds have not been available for new payroll enrollees since April 1, 1988.

6. Program Reductions to Offset Pay Costs and Absorptions..... ($ 830,000)

This reduction is applied to contracts to provide absorption of approximately 50 percent of the FY 1991 Pay Raise.

OTHER CHANGES

Total Other Changes	$ 2,590,000
Adjustments necessary to maintain current levels	**$ 3,161,000**
1. Annualization of FY 1990 Pay Act Increase	$ 529,000

This represents one-quarter of the FY 1990 base amount for the January 1990 pay raise which was effective for three-quarters of the year in FY 1990. This includes $448,000 for salaries and $81,000 for benefits.

2. Increased Cost for Proposed FY 1991 Pay Raise	$ 1,584,000

This represents the cost for three-quarters of the year for a proposed 3.5% pay raise and provides $1,342,000 for salaries and $242,000 for benefits.

3. Increased Cost for EX/SES Pay Raises (P.L. 101-194)	$ 130,000

This represent the cost of increases pursuant to P.L. 101-194 and provides $110,000 for salaries and $20,000 for benefits.

4. Increased Cost of Additional Compensable Day	$ 230,000

This represents the increased cost of salaries and benefits for one additional compensable day in FY 1991 over FY 1990.

5. Increased Cost of Health Insurance..... $ 259,000

The Office of Personnel Management (OPM) projects a general increase of 15% for agency contributions to employee health benefits. This amount was devised by applying 15% to the FY 1990 base of $1,726,000.

6. Increased Cost of Other Health Benefits..... $ 28,000

For other categories in this object class, which includes PCS moves Uniform Allowance, Quarters Allowance, Overseas Housing and Utilities, and Life Insurance, the deflator of 4.2% has been applied to the FY 1990 base of $671,000.

7. Payment to the Workers' Compensation Fund..... ($ 182,000)

This decrease represents the actual 1989 Workers' Compensation Fund billing that will be paid in FY 1991 under that budgeted for FY 1990.

8. Increased Costs of Travel and Transportation of Persons..... $ 28,000

This represents a net increase and consists of per diem rates of $17,000 based on a 6.5% agency-wide increase which was applied to the FY 1990 base of $268,000; and an increase cost for Other Travel of $11,000 based on application of the deflator of 4.2% which has been applied to the FY 1990 base of $254,000.

9. Increased Cost of Transportation of Things..... $ 20,000

The deflator of 4.2% has been applied to the FY 1990 base of $494,000 for Transportation of Things, Transportation of Household Goods and Freight Costs.

10. Increased Costs of Rent, Communications and Utilities..... ($ 314,000)

This represents a net reduction and consists of a GSA space rental increase of $217,000 based on a 4.4% increase proposed by GSA; Treasury Owned space of $91,000 with a deflator of 4.4% has been applied to the FY 1990 base of $2,072,000; Digital Telecommunications Switch (DTS) of ($415,000) which represents the change in cost from FY 1990 to FY 1991 for DTS; and Federal Telecommunications Systems (FTS) ($261,000) which represents the change in cost from FY 1990 to FY 1991. All other costs of $54,000 represent a 4.2% increase over the FY 1990 base of $1,279,000.

11. Increased Cost of Printing and Reproduction..... $ 186,000

The Government Printing Office indicates a 7.0% increase for FY 1991. This has been applied to the FY 1990 base of $2,651,000 for GPO Printing, Commercial Printing and Working Capital Funds (WCF) Printing Costs.

12. Increased Costs of Other Services..... $ 464,000

This represents a net increase and consists of increased cost of other GSA payments (Guard Service, etc) of $11,000 or a 6.5% agency-wide GSA increase; Payroll/Personnel Services (TPIS/PERMITS) of ($12,000) representing a change in cost from FY 1990 to FY 1991; and all other costs of $465,000 representing a 4.2% increase which has been applied to the FY 1990 base of $11,071,000.

13. Increased Cost of Supplies and Materials..... $ 92,000

This represents GSA supplies of $54,000 based on a 6.5% agency-wide increase; and all other supplies and materials of $38,000 based on the application of the 4.2% deflator to the FY 1990 base of $908,000.

14. Increased Cost of Equipment..... $ 107,000

The cost for all other categories in this object class, which includes Increased Cost of Equipment, ADP Equipment, Furniture Replacement, Refurbishing of Protective Vehicles, Special Investigative Equipment, Other Equipment, Replacement of Vessels, Library Books and Purchase of ADP Software, have a deflator of 4.2% applied to the FY 1990 base of $2,548,000.

Adjustments Necessary to Meet Changes in Workload..... $ 3,695,000

1. Savings Bond Workload..... $ 3,210,000

A 7 million piece workload increase is anticipated in Savings Bond redemptions. This increase of $3,210,000 is primarily to reimburse Fiscal Agents for their services in redeeming savings bonds; $130,000 is for payment to the U.S. Postal Service to cover costs for mailing savings bonds, interest check payments, and redemption tables.

2. A-76 Adjustment..... $ 485,000

This represents the restoration of the FY 1990 reduction.

Reductions, Nonrecurring Costs and Savings		**($ 4,266,000)**
1. Nonrecurring costs		($ 366,000)
o Equipment	($ 83,000)	
o ADP Contract	($ 283,000)	
2. Savings		($ 3,900,000)
o Issuing Agent Fees-RDS	($ 3,900,000)	

Standard Classification Schedule
(Direct Obligations Only)
(Dollars in thousands)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
TOTAL NUMBER OF PERMANENT POSITIONS	2,016	2,070	2,073	3
AVERAGE PAID EMPLOYMENT (FTE) workyears	1,955	1,967	1,975	8
Object Classification				
Personnel compensation:				
Permanent positions	$46,720	$48,019	$50,221	$2,202
Positions other than permanent	542	1,497	1,555	58
Other personnel compensation	2,471	2,660	2,981	321
Total personnel compensation	49,733	52,176	54,757	2,581
Personnel benefits	8,448	9,461	9,984	523
Benefits for former personnel	6	80	80	0
Travel and transportation of persons	454	522	560	38
Transportation of things	438	482	482	0
Rent, communications & utilities:				
Standard level user charges	4,813	4,926	5,143	217
Rental Payments to others	2,045	2,072	2,163	91
Other rent, communications & utilities	16,907	18,452	18,462	10
Printing & reproduction	2,858	2,651	3,869	1,218
Other services	108,669	79,793	54,757	(25,036)
Supplies & materials	1,628	1,734	1,826	92
Equipment	3,269	2,548	2,572	24
Lands and Structures	2	0	0	0
Insurance claims & indemnities	0	5	5	0
Total Obligations	199,270	174,902	154,660	(20,242)
Unobligated balance lapsing	0	0	0	0
Total actual obligations, proposed authorized level, and budget estimate	199,270	174,902	154,660	(20,242)

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

Distribution of Funds by Major Allocation

(dollars in thousands)

Bureau of the Public Debt	1989 Actual Amount	1989 Actual Percentage	1990 Estimate Amount	1990 Estimate Percentage	1991 Estimate Amount	1991 Estimate Percentage
Operating expenses:						
Personnel compensation & benefits	$58,187	29.2%	$61,717	35.3%	$64,786	41.9%
Other related expenses	40,852	20.5%	43,649	24.9%	45,445	29.4%
Total operating expenses	99,039	49.7%	105,366	60.2%	110,231	71.3%
Reimbursements:						
Fees paid to issuing agents	25,708	12.9%	28,800	16.4%	23,729	15.3%
Fees paid to paying agents	19,059	9.6%	17,700	10.1%	20,700	13.4%
FRB Reimbursement	55,464	27.8%	23,236	13.3%	0	0.0%
Total reimbursements	100,231	50.3%	69,536	39.8%	44,429	28.7%
Total, Bureau of the Public Debt	199,270	100.0%	174,902	100.0%	154,660	100.0%
U.S. Savings Bonds Division:						
Personnel compensation & benefits	10,889	5.0%	11,305	5.8%	11,846	6.8%
Other objects of expenditure	7,913	3.6%	7,899	4.0%	8,633	4.9%
Total, U.S. Savings Bonds Division	18,802	8.6%	19,004	9.8%	20,479	11.7%
Total Obligations, appropriation or estimate	218,072	100.0%	193,906	100.0%	175,139	100.0%

DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate
Senior Executive Service Level 6.....	0	0	0
Senior Executive Service Level 5.....	1	1	1
Senior Executive Service Level 4.....	4	4	4
Senior Executive Service Level 3.....	4	4	4
Senior Executive Service Level 2.....	1	1	1
Senior Executive Service Level 1.....	0	0	0
Subtotal.....	10	10	10
GS/GM-15.....	24	25	25
GS/GM-14.....	48	48	48
GS/GM-13.....	97	103	103
GS-12.....	171	176	176
GS-11.....	117	127	127
GS-10.....	16	15	15
GS-9.....	165	168	168
GS-8.....	66	66	66
GS-7.....	181	185	185
GS-6.....	216	230	230
GS-5.....	251	261	264
GS-4.....	255	255	255
GS-3.....	289	289	289
GS-2.....	68	68	68
Subtotal.....	1,962	2,016	2,019
Ungraded.....	44	44	44
Total permanent positions.....	2,016	2,070	2,073
Unfilled positions, end-of-year.....	(110)	(85)	(85)
Total permanent employment, end-of-year	1,906	1,985	1,988

WEDNESDAY, MARCH 7, 1990.

FINANCIAL MANAGEMENT SERVICE

WITNESSES

GERALD MURPHY, FISCAL ASSISTANT SECRETARY
WILLIAM E. DOUGLAS, COMMISSIONER
RUSSELL D. MORRIS, DEPUTY COMMISSIONER
MITCHELL A. LEVINE, ASSISTANT COMMISSIONER, COMPTROLLER
KAROL A. FORSBERG, DIRECTOR, BUDGET DIVISION
DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT

OPENING REMARKS

Mr. ROYBAL. The committee will come to order.

The committee is in session this afternoon to hear from the Financial Management Service.

Would you please proceed in any manner that you may desire, Mr. Douglas?

Mr. DOUGLAS. Thank you, Mr. Chairman.

Our Assistant Secretary, Gerald Murphy is here, and has a few remarks that he would like to make to the Committee.

Mr. ROYBAL. Mr. Murphy, will you proceed?

OVERVIEW OF FMS BUDGET REQUEST

Mr. MURPHY. Mr. Chairman, Members of the committee, I appreciate this opportunity to discuss the Fiscal Year 1991 resource requirements of the Financial Management Service.

The Service is requesting $218.7 million, 2216 direct full-time equivalent (FTE) positions, and 59 reimbursable FTE positions. This request reflects two major changes. Most significant is the way in which FMS budgets the costs it incurs for issuing Social Security Trust Fund payments. In addition, this budget continues the trend begun in Fiscal Year 1989 to reduce fees paid to depositaries who process Federal Tax Deposits. Large financial institutions will no longer be compensated beyond the value of one-day float for the services they provide the Treasury.

Our request for initiative funding includes resources to support FMS' financial services operations and Governmentwide financial management improvement activities. These new and expanded initiatives will permit the secure and accurate transmission and certification of payment data; increase the accessibility of financial information; and provide mechanisms to improve credit administration Governmentwide.

Mr. Chairman, that concludes my prepared statement. I would now like to present the Commissioner of the Financial Manage-

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ment Service, Ernie Douglas, who will share with you FMS' role in an era of changing priorities.

[The information follows:]

DEPARTMENT OF THE TREASURY
FISCAL SERVICE
FINANCIAL MANAGEMENT SERVICE

STATEMENT OF GERALD MURPHY, FISCAL ASSISTANT SECRETARY FOR PRESENTATION TO THE SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS

Good Afternoon, Mr. Chairman and Members of the Committee. I appreciate this opportunity to discuss the Fiscal Year 1991 resource requirements of the Financial Management Service (FMS).

The Service is requesting $218.7 million, 2,216 direct full-time equivalent (FTE) positions, and 59 reimbursable FTE positions. This request reflects two major changes. Most significant is the way in which FMS budgets the costs it incurs for issuing Social Security Trust Fund payments. In addition, this budget continues the trend begun in FY 1989 to reduce fees paid to depositaries who process Federal Tax Deposits. Large financial institutions will no longer be compensated beyond the value of one-day float for the services they provide the Treasury.

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Mr. Chairman, that concludes my prepared statement. I would now like to present the Commissioner of the Financial Management Service, Ernie Douglas, who will share with you FMS' role in an era of changing priorities.

Mr. ROYBAL. You may proceed.

Mr. DOUGLAS. Thank you, Mr. Chairman. Good afternoon to you and the Committee Members. I have a long statement that I would like to submit for the record if the Chairman allows.

Mr. ROYBAL. Without objection, it will be the order. It will be submitted at this point and then you can summarize it.

Mr. DOUGLAS. Thank you, sir.

[The prepared statement of William E. Douglas follows:]

DEPARTMENT OF THE TREASURY
FISCAL SERVICE
FINANCIAL MANAGEMENT SERVICE

STATEMENT OF WILLIAM E. DOUGLAS
COMMISSIONER
FOR PRESENTATION AT THE SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS

Mr. Chairman and Members of the Committee, I am pleased to be here today to present the Fiscal Year 1991 resource requirements of the Financial Management Service (FMS).

There has been an extraordinary amount of positive change in our world during the past year. In his recent State of the Union Address, President Bush addressed this change by saying, "The events of the year just ended -- the revolution of '89 -- have been a chain reaction -- change so striking that it marks the beginning of a new era in the world's affairs." The 1990s are already taking shape as a decade with a different kind of agenda -- an agenda where financial responsibility and improved management practices will take on a heightened importance. The 1990s will be a decade in which cutting the deficit, securing domestic economic prosperity and managing the taxpayers' dollars more effectively must be realized.

The promise of a more peaceful world provides an opportunity for the Treasury Department to meet its goal of promoting financial management excellence Governmentwide. As the decade progresses, FMS will continue to lead the drive toward increased cash management earnings, the development of more effective credit management and debt collection programs, improvement in the quality and timeliness of financial

information, and expanded use of electronics in both payments and collections. FMS will pursue these goals with initiatives focused not only on improving our financial operations, but also on activities that will help Government agencies improve their financial stewardship.

The Financial Management Service will continue to focus on providing quality service, capitalizing on the electronic revolution, improving financial systems and reducing the Government's interest burden.

The 1990s will hold many interesting challenges for the Federal Government in these areas. The value and importance of the work performed by the Financial Management Service will continue to grow. For example, many Federal agencies have sought FMS' high quality consulting and advising services on a variety of financial management matters. Our FY 1991 Budget Request will allow us to continue to deliver vital financial services and to make critical improvements in those services. We need your continued support to succeed in our endeavors.

The Financial Management Service's FY 1991 request seeks $218.7 million, 2,216 direct full-time equivalent positions (FTEs) and 59 reimbursable FTE positions. This represents an increase of 57 FTE positions and a <u>decrease</u> of $66.9 million from the approved FY 1990 level. Due to productivity increases and a growing demand for financial management services, the Service's workforce has evolved from primarily operational in the late

1970s to one that is more balanced between operational and more sophisticated technical and analytical roles during the 1990s.

The dramatic reduction in the requested funding level results primarily from some portions of Social Security Trust Fund support activities becoming directly reimbursable and a significant change in fee payment practice for the Treasury Tax and Loan Program. Congress has given the Service authority to obtain $59.3 million in direct reimbursement from the Social Security Trust Funds for non-personnel costs related to the payment issuance process. Enactment of this provision, effective October 1, 1990, represents partial success in the Service's long endeavor to change the way in which these costs are billed and satisfied.

The Treasury Tax and Loan Program compensates banks for collecting Federal Tax Deposits. Beginning with the October 1990 reporting cycle, larger depositaries will no longer be paid a nominal per coupon fee for processing Federal Tax Deposits. This continues a trend to reduce fees which began in March of 1989. However, all participating depositaries will continue to receive the one-day use of funds. Small and minority banks will still receive per coupon fees in FY 1991.

The Service's FY 1991 request includes base funding to keep the Service's highest priority item -- System 90 -- on schedule, as well as $10.0 million and 11 full-time equivalent positions for other initiatives. The requested initiative funding is divided evenly between financial operations and Governmentwide

financial management improvement activities in support of our lead agency role. Each of these programs addresses an important Government need and will provide the Service with an excellent head start in meeting its goals for the 1990s. I will now outline the System 90 program as well as the Service's major FY 1991 initiatives.

SYSTEM 90:

System 90 has been the top priority of the Financial Management Service for several years, and it will remain so until full implementation is achieved. At this time, site modifications at the development and pilot sites are underway, and FMS is in the process of evaluating vendor proposals. No additional initiative money is being requested for System 90 this fiscal year, although $14.7 million of FMS' FY 1991 base funding is earmarked for this project. In FY 1991, FMS will be gearing up for the FY 1992 System 90 pilot. State-of-the-art mainframe computers will be acquired and installed in the development and pilot sites. Development of the new Payment, Claims and Enhanced Reconciliation software will be in progress throughout FY 1991.

System 90 is the cornerstone of the Service's future operating environment, designed to modernize the Service's financial operations to ensure the integrity, security and effective delivery of $1 trillion of annual Federal payments and an efficient claims operation. Due to the scope of the System 90 project, the benefits associated with these operational

improvements extend far beyond FMS, to other Government agencies, the Federal Reserve System and all Government payment recipients.

ELECTRONIC CERTIFICATION: ($1,123,000 and 3 FTE Positions)

Electronic certification represents one of the most significant technological advances in financial and business operations since computers were first widely used thirty years ago. It provides high level security and accuracy in both the certification and transmission of payment data, and it enables that information to be communicated more quickly while eliminating labor-intensive processing of high volumes of paper documents. Electronic certification reduces the risk inherent in relying on easily altered paper documents and will ensure the security and integrity of the Government's disbursing operations by reducing the possibility of fraudulent or erroneous payment certification.

The funding requested for this initiative in FY 1991 will permit expansion of the microcomputer-based electronic certification system to serve many more customer agencies. FMS will realize productivity savings of 10 FTEs and $362,000 from this initiative in FY 1991. As additional agencies are brought on-line, they too will realize significant productivity savings at the same time the safety and security of their payment process are greatly improved.

STAR: ($2,600,000)

The requested FY 1991 funding will complete the redesign of the central accounting system -- the sole system used to determine the Government's monthly budget results, control a multi-trillion dollar cash flow, prepare the Monthly Treasury Statement, and identify all Federal cash-based assets and liabilities. The current accounting system software and architecture dates from the 1960s and is paper-based, labor-intensive, and error-prone. It is very unresponsive to new information needs, and inadequate for producing timely information about agency operations. By the end of FY 1991, five of the seven STAR system modules will be complete and operational. This represents more than ninety percent of system activity. The remaining modules will become operational in FY 1992. The completion and full implementation of STAR will provide an excellent illustration of the strides the Financial Management Service is making to improve the quality of Federal financial information available to agency managers and decision makers.

PROJECT USA: ($600,000 and 8 FTE Positions)

Project U.S.A. (Unified Systems Approach) will be a milestone in the march to the Service's goal of developing a consistent, comprehensive approach to improving the Government's financial management. Project U.S.A. will provide agencies with models of financial and program management excellence, train the Government's financial managers on improved ways to manage their

financial responsibilities, and develop assessment tools for measuring financial and program performance. We have all heard about Federal agency management problems -- including the inability to control cash or inventories and problems with procurement, debt collection and computer processing. A list compiled last Fall by the Office of Management and Budget identified 73 significant problems in 16 major agencies, which, if left uncorrected, could lead to hundreds of billions of dollars in losses to taxpayers. Project U.S.A. will build on our experience of the past decade, in such areas as cash and credit management, to close the remaining gap and put the Federal Government on an equal footing with the country's best managed corporations.

ELECTRONIC BENEFIT SERVICES: ($1,350,000)

Approximately eight million Federal benefit recipients, your constituents, cannot receive their payments electronically because they do not have bank accounts. As a result, they are often the victims of stolen and forged checks, delays in being paid, inconvenient and costly trips to check cashing locations, and substantial fees to cash Government checks. Electronic Benefit Services (EBS) is the delivery of benefits through plastic access cards and available electronic technology such as Automated Teller Machines (ATMs) and Point-Of-Sale (POS) terminals. The Service's EBS program will enhance the level of service to the unbanked benefit recipient population by offering them an electronic delivery alternative; result in the conversion

ADMINISTERING THE PUBLIC DEBT
Bureau of the Public Debt

AVERAGE GRADES AND SALARIES

	Appropriation FY 1989	Authorized FY 1989	Estimated FY 1991
Average ES salary	$79,500	$79,500	$79,200
Average GS grade	6.6	6.6	7.1
Average GS salary	22,640	22,833	23,851
Average salary of ungraded positions	21,884	21,884	21,836

of approximately 100 million benefit check payments to Automated Clearing House (ACH) payments; and encourage multiple delivery of benefits via a single access card to those unbanked recipients who receive several different benefits including food stamps. Equally as important, this initiative will assist the unbanked by providing them with a safe, secure, convenient, dependable and less costly means of receiving their benefits.

GUARANTEED LOAN MANAGEMENT PROGRAM: ($3,500,000)

The Guaranteed Loan Management Program is a major effort to improve guaranteed loan management Governmentwide. At the end of FY 1989, the Government had responsibility for $588 billion in outstanding guaranteed loans. Improvement is desperately needed because payment defaults on guaranteed loans, which increased $12 billion in FY 1989 alone, continue to rise. Defaults on outstanding guaranteed loans have risen 119 percent in five years. These defaults represent a potential risk to increasing the Federal deficit.

The goal of this initiative is reduced defaults on guaranteed loans through rigorous application of standards for monitoring and managing guaranteed loan programs by Federal program agencies and financial institutions. This initiative will include standardized reporting from lending institutions to program agencies and from program agencies to central financial management (FMS and OMB). It will also provide criteria for guaranteed loan operations and decrease defaults of guaranteed loans. The Guaranteed Loan Management Program will result in a

reduction of defaults on guaranteed loans, improved receivables information for Treasury and OMB, and enhanced monitoring and management of guaranteed loans at Federal program agencies and financial institutions.

CONCLUSION

Mr. Chairman, I would like to thank you and the Subcommittee for your valuable support in the past and your continued interest in helping FMS improve the way the Government manages its $2 trillion cash flow, as well as its even larger portfolio of assets and liabilities. We are proud of the fact that our achievements were recognized by the President's Council on Management Improvement in June 1989. We can and do deliver. We are dedicated to ensuring the financial integrity of the United States Government through our efforts to improve financial management within the Federal Government. I give you my personal commitment that we will use this money well. This concludes my formal statement. I would be pleased to respond to any questions.

CHANGING PRIORITIES

Mr. DOUGLAS. I would just like to take about two minutes, literally, to say to the Committee that it seems to me the role of the Treasury Department will be changing in the decade of the 1990s. If we look back over 50 years, from World War II on, there has been a need for this country, as the protector of liberty around the world, to take on major burdens in the defense of freedom.

Conditions are changing now. The role of Department of Defense, which was the preeminent Department for a long time, their role is also changing. I think the taxpayers in the 1990s are going to be looking to the Executive Branch and the Legislative Branch to spend more time and focus more energy on the management of the Government's programs; ensure that the deficit is dealt with; and that the programs which their tax dollars pay for are well managed. I believe that fits perfectly into the role of the Treasury Department.

So, I think the stewardship of the taxpayers' assets, and the role of the Treasury Department as a leader to improve the way the Government manages its programs, to assure that the taxpayers get their full dollar's worth, is going to become more important. The Financial Management Service carries out most of those responsibilities within the Treasury Department. So I think the 1990s will look different than the 1980s or the 1970s, or earlier decades.

I am prepared to answer any questions which you might have at this point, sir.

FY 1991 BUDGET REDUCTIONS

Mr. ROYBAL. The one question that comes to mind is actually seen in the budgetary request, and that is that while there may be these improvements in the 1990s—and all for the better—that you are in fact decreasing your budgetary request by almost $67 million.

Mr. DOUGLAS. That is correct, sir.

Mr. ROYBAL. What causes the sharp reduction, and will that mean that future years budgets will also be substantially lower?

SOCIAL SECURITY DIRECT REIMBURSEMENT

Mr. DOUGLAS. Yes, sir. Let me deal first with the FY 1991 Budget. That is the first year in which the Financial Management Service will be directly reimbursed by the Social Security Trust Funds for a portion of the services that we provide—payments; reconciliation and claims; managing the trust funds—that sort of thing. As a result of this Committee's action last year, we will be directly reimbursed $59.3 million from the Social Security Trust Funds.

If you look at last year's revenues, an amount similar to that would have gone directly into the general revenues of the Treasury. In other words, we perform the work, we send the bill to the Social Security Trust Funds, and they send the money to somebody else, the General Fund of the Treasury. The Committee would then appropriate directly to us a like sum.

Under the new arrangement, we will be partially and directly reimbursed by the Trust Fund, about $59.3 million for Fiscal Year 1991. That amount is a reduction against what we asked for in Fiscal Year 1990.

FTD REDUCTIONS

There is one other major reduction, and that is that beginning in FY 1991 we will no longer compensate larger Federal depositories (banks) with a nominal per coupon fee for processing Federal Tax Deposits (FTDs). This continues a trend to reduce fees which began in March 1989. Small and minority banks will still receive per coupon fees in FY 1991. However, all participating depositories will continue to receive the one-day use of funds. The reduction here is a little over $18 million. So, those are the two large pieces of the reduction from last year.

SOCIAL SECURITY REIMBURSEMENT

Mr. ROYBAL. All right. Now, if Social Security is going to reimburse you in an amount of let us say $60 million, it means that that fund will be depleted or decreased by that amount.

Mr. DOUGLAS. That is the same amount that they would have to pay out under the old arrangement.

Mr. ROYBAL. That does not make any difference. It will still be an outlay.

Mr. DOUGLAS. Yes, sir. It is an outlay.

Mr. ROYBAL. All right. But we are borrowing from Social Security at the present time, and would have borrowed by the year 1993, $498.6 million. We saw a projection this morning that would indicate that after the year 2000, the Social Security Trust Funds will start having trouble and be completely depleted by the year 1946. Excuse me. 2046. Completely depleted. Let us just suppose that this trend does continue. Where will Social Security be getting the money?

Mr. DOUGLAS. As you know, money is collected on Social Security contributions, both from employers and from individuals. When that money comes into the Government, it is invested in Government securities. That is the way that the system has worked since 1936 when it began. If there is a surplus of funds—and it has been a long time since the Government has been in a surplus position

Mr. ROYBAL. The Government has not, but Social Security has.

Mr. DOUGLAS. Social Security is in a surplus position today, Mr. Chairman.

Mr. ROYBAL. Sure.

Mr. DOUGLAS. Back in 1983, a special Committee met to try to ensure that Social Security was funded well into the 21st century. If they have a surplus, those funds are invested and they earn interest on whatever the current rate is of Government securities. Our reimbursement—either directly to us, or a reimbursement into the General Fund for the services that we provide into the General Fund—does not either increase or decrease the financial condition of the Trust Funds. So, I guess a way of saying it is to borrow from a term that we hear in the tax area—revenue neutral. It is expense neutral. It does not increase or decrease.

ADMINISTRATION OF SOCIAL SECURITY TRUST FUNDS

Mr. ROYBAL. I realize that the Financial Management Service is not responsible for the way Social Security is being administered. But one cannot deny the fact that we borrow, and have been, and will be borrowing from Social Security. I do not call it borrowing. I use another word for it, because when we take money from Social

Security, we actually are supposed to pay back Social Security an interest rate equal to the interest rate that is paid by Government securities----

Mr. DOUGLAS. That is correct, sir.

Mr. ROYBAL [continuing]. Which is less than the Government or anybody else would have to pay if they went out directly to banks to get it. So the Social Security Administration, I am told, could be, if properly managed, getting more interest per year than having the Government take from that fund X billions of every year.

That is not the fault of your Service at all. I am bringing that out because I am very unhappy about the way we are using Social Security, and I am unhappy about the fact there is so much dissatisfaction—not so much among senior citizens. But the young people are going to live to the year 2046, and beyond that. These are the people that are going to have a problem unless we do something about Social Security.

There was a discussion this morning in the full Committee on Appropriations with regard to this. And we always say, "Well, we should not do anything now." We ought to take it off budget, I have been told, in the Committee on Aging on several occasions. I was told five years ago that it was going to be taken off the budget by 1990. That did not happen. In the last hearing we held, which was last week, we were told it would be taken off the budget by 1993. I predict that is not going to happen.

Again, I am bringing all this out and even putting it in the record. Maybe I will take it out later. I do not know. But leave it in the record for the time being, at least to make that one point which I think is important. Here we have trust funds that were intended to be invested properly in an independent agency. And then it was taken out and put into the general budget.

And we use the word "borrow" from it every year. We should not be borrowing from it. If we borrow, let us pay back the interest at 11 and a half percent, which is the interest rate that we would have to pay if we went out into the bank to get it, not 9 percent. That is of course, again another, but it is something that is most important and part of the financial structure of the Federal Government.

PAYMENT SYSTEMS

But let us go back now to the issue at hand. Your Bureau touches the lives of many millions of Americans every month, because you issue the checks that many people depend on. Obviously, any changes that you make in this payment system will affect millions of people. There have been some changes in this payment system. Can you please explain to the Committee the changes that have been made in the system in the past few years, and tell us what we can expect in the future?

Mr. DOUGLAS. All right, sir. We have for the last few years, as you mentioned, told the Committee about our plans to replace our existing payment systems. And by that I mean not only the hardware, but all the software that runs the systems, and all the applications for the various payment areas. We are going to replace that system with what we call System 90. Over the past three years, the

Committee has appropriated to us about $25 million for System 90, which is roughly 40 percent of the estimated total cost.

In this year's budget, in the base, we have asked for an additional $14.7 million to continue that development effort. We put an RFP—a Request for Proposal from vendors—on the street last year, and we have gotten the responses. In fact, we are right now doing very extensive technical analysis of those proposals. We expect to make an award late this summer—probably August, if not, then in September.

That system will cost roughly $60 million. We hope it may come in a little less than that, but it is in that neighborhood. It will allow us to use modern technology, both in the hardware in our computer operations, as well as newly designed state-of-the-art software programs to support not only payments, but also claims made for people who do not receive their checks. We make about 760 million payments every year, and we have to reconcile those payments.

So this system is really a state-of-the-art approach. We will start development later this year, and we will have in Fiscal Year 1992 a pilot operation in Austin, Texas. We will roll that out in the subsequent year.

Mr. ROYBAL. All right. Then I think we can assume that you have state-of-the-art technology——

Mr. DOUGLAS. Yes, sir.

Mr. ROYBAL [continuing]. At the present time. What will be the result of the use of that technology with regard to personnel?

Mr. DOUGLAS. It will undoubtedly lessen somewhat the labor intensive activities we take on. By allowing telecommunicated payment data, it will also allow us to serve the Government agencies who make those payments. Social Security is the single biggest one, but we also do 80 million tax refunds every year. And we support the Veteran's Administration on their benefit payments, Railroad Retirement, Civil Service, and a whole range of agencies.

Mr. ROYBAL. And you are responsible for those payments being delayed then. Not——

Mr. DOUGLAS. If they are delayed, sometimes we are responsible, but sometimes it is the program agency, or sometimes we have a mail problem. But I am glad you brought that point up, because our quality indicator on all of our payments last year was that we made the right payment to the right person for the right amount at the right time 99.98 percent of the time. We are talking about 760 million payments. There is no other organization—private sector or Government—that has a quality record like that.

ELECTRONIC FUNDS TRANSFER

Mr. ROYBAL. The next question I was going to ask is what is the current number of payments made annually by electronic fund transfer. That 760 million is total number.

Mr. DOUGLAS. Yes. The total is the 760 million that I mentioned a moment ago. Of that number, a little more than 300 million are by EFT (Electronic Funds Transfer), what we call the Direct Deposit Program. And that total keeps going up. We have now reached a point with Social Security retirement payments, which is again our

biggest single customer, where they have reached the 50 percent mark. So they are making as many payments through EFT to Social Security recipients as through the delivery of checks.

Mr. ROYBAL. Has this modernization of equipment resulted in savings in interest expense?

Mr. DOUGLAS. It has several effects, sir. One is, it saves the trust funds, because remember, as we were talking earlier, it is the trust fund that is going to end up paying the bill. For every EFT payment, the cost is 5 cents. For every check, it is 31 cents per payment. That includes postage. And as of course we know, postage apparently is going up next year. So the trust fund is saving 26 cents for every payment made by EFT, and as I said, we make well over 300 million payments by EFT. Not all of those, of course, are Social Security, but a large number of them are.

Mr. ROYBAL. There is a roll call on the floor now, and what we will do is recess for about 10 minutes. And when we get back, we will have Mr. Skeen continue the questions.

Mr. DOUGLAS. Fine. Thank you, sir.

[Whereupon, a brief recess was held, and the subcommittee resumed.]

Mr. ROYBAL. The Chair recognizes Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman. They answered all my questions while we were gone, but now we will put them on the record. I want to welcome all of you here. It has always been an enlightening conversation. I think you have covered most of the questions. We have talked about the electronic transfer system and how well it is progressing. And I am delighted that you are keeping ahead of the curve in that particular area. Then I think you explained your reduction in your appropriations for this year's request. That is not a true reflection of where your budget is, but I think you explained that very well.

PROJECT USA

What I would like to ask you is, you have identified some 73 significant problems in about 16 major agencies which would lead to hundreds of billions of dollars in losses to the taxpayers. Your Project USA (Unified Systems Approach) would help stem some of this loss, if not all of it. Would you describe some of these problems and which agencies you are talking about? And how would you, or could you, remedy the situation, Mr. Douglas?

Mr. DOUGLAS. Project USA is something that we really have just been working on for about four or five months. We first tried to interest the Management side of OMB in this project. What essentially we are saying is, if you look across Government, there are a lot of activities that are very similar in one agency or another. Let me take an example that is very much in the news these days. It is called Single Family Guaranteed Housing. The FHA has that loan program. The VA also has a loan program for that. The Farmers Home Administration has a similar program. Even the Small Business Administration has some housing loans like that.

Mr. SKEEN. Excuse me. These are all overlapping housing programs?

Mr. DOUGLAS. Yes, sir. They target different segments of the guaranteed loan market, but if you look at the programs, the differences are relatively minor. The similarities are very significant. What we are saying is there has got to be a better way of managing these programs. Everybody has read about the HUD situation. Last night on CBS News, they talked about Farmers Home loans. They were estimating the potential for $11 billion in losses.

GUARANTEED LOAN MANAGEMENT

At the end of 1989, the total amount of loans guaranteed by the Government was $588 billion. That was the exposure of the Government in guaranteed loans. If the loans go bad, the Government essentially has said we will step in and pick up the tab. Of course that means the taxpayer will pick up the tab.

Mr. SKEEN. This is just in the housing field?

Mr. DOUGLAS. This is just in guaranteed single family loans.

Mr. MORRIS. The $588 billion is all outstanding guaranteed loans.

Mr. SKEEN. Oh, it is all guaranteed loans. It is including——

Mr. MORRIS. It is all guaranteed loans including housing loans.

Mr. SKEEN. And how much is that, 15 billion?

Mr. DOUGLAS. It is $588 billion.

Mr. SKEEN. $588 billion. All right.

Mr. DOUGLAS. If you go back five years, the increase is 52 percent. In other words, between 1984 and 1989, the total value of guaranteed loans has increased by 52 percent. Now defaults have increased by approximately 120 percent on those guaranteed loans.

Mr. SKEEN. 120 percent?

Mr. DOUGLAS. 120 percent in that five year period for defaults.

Mr. SKEEN. Defaults?

Mr. DOUGLAS. Defaults.

Mr. SKEEN. Increase in defaults.

Mr. DOUGLAS. Increase in them. Yes, sir. What we are saying is that what we would like to do now is look at those programs across the various agencies that have them and come up with a model of excellence. In other words, what would be the most effective, most efficient program that would protect the Government's interest and the taxpayers' interest at the same time it was carrying out the intent of the program as set forth by the legislation? And to say to the program managers, "Here is what an almost perfect organization would look like. Here are the things they would do. Here are the techniques they would use. Here are the systems they would have. Here is the information they would need to manage their program effectively."

If we can make a 1 percent improvement in that default rate that I just talked about, a 1 percent improvement is about $110 million less of a loss to the taxpayers.

Mr. SKEEN. $110 million.

Mr. DOUGLAS. $110 million. So we think that program has tremendous potential, and there are others we could improve. There are inventory programs that cut across Government agencies. There is the management and disposal of defaulted property. That is a related issue to housing loans, particularly in the Southwest—Colorado, Oklahoma, etc.

Mr. SKEEN. New Mexico.

Mr. DOUGLAS. New Mexico. We think that we can get in and work with those agencies to make improvements—and we have already started this. We are working on a housing loan management profile, and we are working with the program agencies. We should have a first cut at this profile of how to do things right, probably next month. We are also talking to big financial institutions in the private sector who do the same kind of loan business. We are looking at loan servicing organizations for ideas.

LOAN DELINQUENCIES

We have some situations where agencies cannot tell you how much their delinquencies are. They do not know how many loans are delinquent, and they do not know how long they have been delinquent. Their financial systems do not provide them that kind of information.

Mr. SKEEN. These are Federal agencies that cannot tell you what their delinquencies are?

Mr. DOUGLAS. Federal agencies. They cannot tell you with certainty. They will give us figures and say, "This is our best estimate. It is an educated estimate, but our system does not provide the information so that we can say with absolute certainty this is the dollar amount."

Mr. SKEEN. Are there any agencies that have a very accurate system of this kind of reporting?

Mr. DOUGLAS. Each agency has some things that they do very well. And what we would like to do is identify those things and then make sure everyone is doing it that way.

Mr. SKEEN. Make them all do it.

Mr. DOUGLAS. Yes. But there is no agency which is an ideal example—and I am not speaking out of school. I was just on a program two days ago with the head of FHA and a top official from Farmers Home. They are political appointees. They have recently come into their jobs and are now dealing with their problems. They will also tell you the same things I have said. They simply do not have the tools to manage their programs the way that you would expect, that Congress would expect, or the public would expect.

Mr. SKEEN. Well, what really concerns me about this more than anything else is we asked for information from various agencies to get some kind of scope for budgetary reasons and all the rest. And you are telling me that in many cases you do not have information that you can really rely on. And it is not an intentional thing.

Mr. DOUGLAS. No, sir. It is not that people are intentionally trying to put out wrong figures. It is that the systems that they deal with frequently do not provide 100 percent reliable data.

Mr. SKEEN. On defaults.

Mr. DOUGLAS. On defaults or on other matters.

Mr. SKEEN. Or guaranteed position.

Mr. DOUGLAS. Yes. We say, "Well, what percentage of your loans are current, as opposed to delinquent?" And sometimes agencies say, "Well, we have done some sampling. We analyzed a sample of

our cases and, based on that information, our estimate is this figure."

CREDIT MANAGEMENT

Mr. SKEEN. Well, is it standardization that is the problem?

Mr. DOUGLAS. That is it exactly. Yes, sir. It is. There are no standards. Do you have that Credit Booklet, Mitch?

Mr. LEVINE. Oh, yes.

Mr. DOUGLAS. A little over a year ago, we put out this Booklet. It is called "Managing Government Credit". We sat down with Federal agencies that are in the credit business and we got ideas from them: good things to do; also things that do not work; and things that have been problems. We brought this information together in a way which helped agencies do their jobs better. That is the first time it has been done in Government. Credit agencies did not have commonsense guidelines in many cases; or procedures or standards. They did not know how to judge for themselves, whether they were doing things well or doing them poorly. We are trying to bring effective management focus to the management of the Government's assets and liabilities.

Mr. SKEEN. Well, that is one of the biggest fiscal agencies anywhere in the world. And it really concerns me. We have had discussions before about GAAP, Generally Accepted Accounting Principles. And we had an accountant well recognized in his own field here in Congress who was trying to initiate that kind of a system with management. It seems to me like every agency has its own peculiar system of accounting—or management.

Mr. DOUGLAS. Sometimes they do not even have systems within the same agency—that are compatible.

Mr. SKEEN. Within the agency?

Mr. DOUGLAS [continuing]. Or department. Yes.

Mr. SKEEN. Well, that is very disconcerting. I think it ought to be one of the top priorities, because we do not have any idea. For instance, everybody is always talking about what the Government owes. I do not think we have a real lock on what we owe, because no one ever counts the guarantees. We want to take Social Security off budget. We want to take Postal Service off budget. I do not think it means a doggone thing, because nobody knows how we account for it all. And I am confused.

CENTRAL ACCOUNTING

Mr. DOUGLAS. We do the central accounting and reporting for the Government, on a cash basis, and we also produce an accrual financial statement for the Government. In those statements, and particularly in the accrual area, we frequently will have a footnote which in effect says, "This is the best estimate of this agency as to what this figure is." But the agency lacks the ability to say with precision, "These are the precise figures for our assets." Or, "These are the precise figures for our liabilities."

GUARANTEED LOANS

Then when you get into the contingent liability issue with guaranteed loans which we were discussing earlier, we now know the

exposure is $588 billion. Obviously, most of that amount is not going to go bad, and we certainly hope it will not.

But all it takes is 10 to 15 percent of that figure——

Mr. SKEEN. But when you have a default rate that is increasing at a 120-percent rate——

Mr. DOUGLAS. Over a 5-year period.

Mr. SKEEN. Over 5 years?

Mr. DOUGLAS. Right.

Mr. SKEEN. Well, even over 5 years, because that is still 20 some percent a year——

Mr. DOUGLAS. Yes.

Mr. SKEEN [continuing]. Increase, or at least a steady increase. Unbelievable. The thing that bothers me most about this, we are trying to bail the thrift institutions out, and we have this great system that we initiated here a while back. Now we have come up with a whole new system for managing loans and guaranteeing loans. FMHA is talking about one. FHA, I think, is talking about revising their system. And if they do it on the same basis of what they have already done, we are in deep trouble, because you are going to just take some more taxpayer money and spend it.

Mr. DOUGLAS. Well, we have an initiative in our budget to work with those agencies to move them toward a more business-like approach to——

Mr. SKEEN. How much resistance do you get?

Mr. DOUGLAS. We are talking about tens of thousands of people in dozens of Government agencies, so obviously you always can find some resistance. But my experience, both with the career people in the agencies and with the political appointees, is that they do want to try to improve this situation. They recognize that this is not a good situation. Now, you get some discussion sometimes as to the feasibility of a particular action, where someone may say, "Well, I do not want to do that. I think maybe I would run into a problem if I did that."

But basically, I think the silver lining to the cloud is that things are potentially so bad that everybody is paying attention now. The S&L crisis has raised our sensitivities, so has the HUD situation and now the Social Security issue is generating discussion. So I really do think that, going back to my opening remarks, the 1990s is the era when your constituents are going to pay more attention to how the Government manages itself.

LOANS OUTSTANDING

Mr. SKEEN. Well, I think that they are now. I think you are exactly right. You are right on the money. When you are talking $588 billion in guarantees, you are talking pretty good money. We are talking about $3 trillion in debt, and you are talking about one-sixth of it right there.

Mr. DOUGLAS. And then there is the direct loan figure.

Mr. MURPHY. There are over $200 billion direct loans outstanding.

Mr. SKEEN. $200 billion?

Mr. DOUGLAS. $200 billion. And those are direct loans, where the Government itself is the lender. It is not a guarantee. It is a direct loan.

Mr. SKEEN. Well, we have all kinds of facets of lending: semi-guarantees; little less than guarantees; market guarantees; private lender guarantees. We would like to help, I think, from the budget aspect of this thing, and the appropriations aspect to help you implement this program. And we would like some suggestions from you on how best you could do that from a legislative standpoint, because legislation is not always the answer to everything. As a matter of fact, I think it is some of the problem.

PROJECT USA

Mr. DOUGLAS. Well, sir, one of the objectives that we want to achieve with Project USA is to work with these agencies and come up with the answers. Then we want to get OMB budget examiners, when they are having budget hearings with the agencies, to ask these kind of stewardship questions. It is a stewardship issue of how the taxpayers' money is being used.

If we can get them to do that, then we would like to involve the oversight committees in Congress, make sure they are provided with this information. Then they can ask some very good questions when they are having not only appropriations hearings, but also oversight hearings with agencies.

Mr. SKEEN. Have you talked to any oversight committees?

Mr. DOUGLAS. At this point, no sir?

Mr. SKEEN. Well, I think that is very illuminating and almost astounding that we have let it go this far before we start doing anything about it. And I commend you for the work that you folks are doing. That is exactly what your job is supposed to be. And we would like to expedite it in any way we can. Thank you very much for your responses. Thank you, Mr. Chairman.

Mr. DOUGLAS. Thank you, sir.

Mr. ROYBAL. Thank you, Mr. Skeen. Mr. Wolf, do you have any questions?

Mr. WOLF. I have no questions, Mr. Chairman.

Mr. ROYBAL. Mr. Douglas, I have just one more request I would like to make, and that is that you submit for the record a table of some kind that shows the number of employees that you have; the total payroll; what percentage paid to men versus women; and then the ethnic composition of your personnel.

Mr. DOUGLAS. All right, sir. We can do that. We keep a record. In fact, we update it about every quarter, with that kind of information all across the organization. And we can certainly provide it to you.

Mr. ROYBAL. I would like to know just what that percentage is, and whether or not you have women in high positions, or in the hierarchy of the organizations.

Mr. DOUGLAS. We certainly do, and we have made a lot of progress over the last five or six years. You can really see those figures change.

Mr. ROYBAL. I remember asking for that information before, and I want to see if there is any improvement from a few years back. Thank you very much, Mr. Douglas.

Mr. DOUGLAS. All right, sir.

[The information follows:]

FINANCIAL MANAGEMENT SERVICE—STATUS OF EMPLOYMENT AS OF MARCH 1, 1990

	Males		Females		Total
	Minimum	Nonminimum	Minimum	Nonminimum	
GS–18/SES	1	11	0	2	14
GM–13/15	25	85	26	50	186
GS/wage grade Supervisors	22	33	75	17	147
GS/wage grade Nonsupervisors	273	371	1,014	334	1,992
Total employment	321	500	1,115	403	2,339

Mr. ROYBAL. I thank you and your colleagues for your presentation.

Mr. DOUGLAS. Thank you, Mr. Chairman.

Mr. ROYBAL. We also have some questions, Mr. Douglas, from other Members of the committee that are in writing that we would like to have you answer, sir.

[The questions follow:]

QUESTIONS FOR THE RECORD
FROM CONGRESSMAN HOYER

FMS' REDUCTION-IN-FORCE

Question. How many people will be subject to reduction-in-force this year?

Answer. We plan to abolish approximately 140 positions this fiscal year. As a result of retirements, placement efforts, and reassignments into available vacant positions, we anticipate the involuntary termination of about 40-50 employees.

Question. Why is the reduction-in-force necessary?

Answer. Significant technological advances and automation of services over the past three to five years have created serious workforce imbalances. In short, these improvements eliminated much of the labor intensive work which previously required a large technicial staff.

Question. How will you handle the reduction-in-force?

Answer. In conducting this reduction-in-force, we are following the pertinent rules, regulations, and guidelines issued by the Office of Personnel Management (OPM) and the Treasury Department, as well as our own internal policy and procedures and agreement with the bargaining unit.

Question. What positions will be affected?

Answer. We plan to reduce about 100 positions in the GS-525 Accounting Technician, GS-990 Claims Examiner, and GS-998 Claims Clerk series in grades 4 through 9. The remaining positions subject to possible reduction include: GS-322 Clerk-Typist, GS-303 Clerk, GS-305 Mail or File Clerk, GS-318 Secretary, GS-350 Office Machine Operator, and GS-503 Financial Clerk.

Question. What steps will be taken to alleviate the impact on employees?

Answer: Several mechanisms help to minimize the impact on employees, including: a hiring freeze, internal reassignments, retraining for placement into computer programmer positions, scholarships for education in accounting related fields, grade and pay retention, assistance from the Department in placing employees in other Treasury organizations, contacts with other Federal agencies, counselling services, outplacement training services through a job information center, optional retirement, discontinued service retirement, early out retirement, severance pay, unemployment compensation and repromotion and reemployment priority programs.

Question. Have you kept employees informed throughout the process?

Answer. Yes, our goal has been to keep employees informed throughout the process by written communication and briefings. Our Commissioner sent a letter to all employees on the impending reduction-in-force on December 8, 1989. Since that time, we have distributed three employee letters with 100 questions and answers to address issues raised by employees. In February, we published a newsletter specifically on the staff reduction. During these months, we have continually communicated to employees by memoranda to keep them abreast of activities and information.

In addition, we have held nine separate briefings addressing different groups of employees. All employees potentially at risk have received training and have been eligible for participation at our placement center for job search training, career counselling, and job information. Additional briefings are being scheduled for April for those who will be impacted by a change-of-grade, reassignment, or separation.

Question. Has OPM approved the use of early out retirements and been otherwise helpful?

Answer. The Office of Personnel Management approved our early out request for positions in the GS-525 Accounting Technician, GS-990 Claims Examiner, GS-998 Claims Clerk, GS-303 and GS-305 Clerk, and GS-503 Financial Clerk series. OPM has provided useful guidance to us about the different aspects of a reduction-in-force.

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE Positions	Amount ($000)
FY 1990 Appropriation (P.L. 101-136)	2,094	2,159	$289,695
Adjustments: Sequestration (P.L.s 99-177, 100-119, 101-239)	0	0	($4,026)
Authorized Level for FY 1990	2,094	2,159	$285,669
Estimate for FY 1991	2,151	2,216	$218,742

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in Thousands)

	Actual		Authorized Level		Budget Estimate		Increase (+) or Decrease (-) for FY 1991					
	FY 1989		FY 1990		FY 1991		Total Changes		Program Changes		Other Changes	
	FTE Pos.	Amount	FTE Pos.	Amount	FTE Pos.	Amount	FTE Pos.	Amount	FTE Pos.	Amount	FTE Pos.	Amount
1. Financial Operations												
a. Field Operations	954	$158,992	925	$168,761	936	$109,129	11	($59,632)	0	($59,114)	11	($518)
b. Headquarters Operations	458	19,327	409	21,963	388	21,640	(21)	(323)	0	(371)	(21)	48
c. General Financial Services	52	2,669	51	2,455	49	2,436	(2)	(19)	0	(12)	(2)	(7)
Total, Financial Operations	1,464	180,988	1,385	193,179	1,373	133,205	(12)	(59,974)	0	(59,497)	(12)	(477)
2. Federal Finance	357	21,184	345	22,643	373	32,232	28	9,589	8	8,740	20	849
3. FTD Fee Payments	0	31,100	0	24,301	0	5,544	0	(18,757)	0	(18,757)	0	0
4. Information Systems	458	41,367	429	45,546	470	47,761	41	2,215	3	(100)	38	2,315
Recovery of Prior Year Obligations	--	(233)	--	--	--	--	--	--	--	--	--	--
Unobligated balance available, SOY	--	(5,019)	--	--	--	--	--	--	--	--	--	--
Unobligated balance available, EOY	--	10,856	--	--	--	--	--	--	--	--	--	--
Unobligated balance lapsing	--	87	--	--	--	--	--	--	--	--	--	--
Total appropriation, authorized level and budget estimate	2,279	280,330	2,159	285,669	2,216	218,742	57	(66,927)	11	(69,614)	46	2,687
Permanent positions	2,211		2,094		2,151		57		11		46	

SUMMARY EXPLANATION OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in Thousands)

	Financial Operations			Federal Finance			FTD Fee Payments			Information Systems			Total		
	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount
Program Changes:															
1. Electronic Certification	--	--	$ 959	--	--	--	--	--	--	3	3	$ 164	3	3	$ 1,123
2. STAR	--	--	--	--	--	$ 2,600	--	--	--	--	--	--	--	--	2,600
3. ADEPT Enhancements	--	--	--	--	--	50	--	--	--	--	--	--	--	--	50
4. Project U.S.A.	--	--	--	8	8	600	--	--	--	--	--	--	8	8	600
5. Electronic Benefit Services	--	--	--	--	--	1,350	--	--	--	--	--	--	--	--	1,350
6. Guaranteed Loan Management Program	--	--	--	--	--	3,500	--	--	--	--	--	--	--	--	3,500
7. Government Credit Standards	--	--	--	--	--	280	--	--	--	--	--	--	--	--	280
8. Federal Tax Refund Offset	--	--	--	--	--	250	--	--	--	--	--	--	--	--	250
9. Litigation	--	--	--	--	--	250	--	--	--	--	--	--	--	--	250
10. Program Reductions to Offset Pay Costs and Other Absorptions:															
o Compensation & Benefits	--	--	(798)	--	--	(68)	--	--	--	--	--	(107)	--	--	(973)
o Other Services	--	--	(361)	--	--	(72)	--	--	--	--	--	(157)	--	--	(590)
11. Other Program Reductions	--	--	--	--	--	--	--	--	(18,757)	--	--	--	--	--	(18,757)
12. SSA Trust Fund Reimbursement	--	--	(59,297)	--	--	--	--	--	--	--	--	--	--	--	(59,297)
Total, Program Changes	--	--	(59,497)	8	8	8,740	--	--	(18,757)	3	3	(100)	11	11	(69,614)
Other Changes:															
Adjustments Necessary to Maintain Current Levels:															
1. Annualization of FY 1990 Pay Act Increases	--	--	439	--	--	116	--	--	--	--	--	150	--	--	705
2. Increased Cost for Proposed FY 1991 Pay Raise	--	--	1,297	--	--	341	--	--	--	--	--	434	--	--	2,072
3. Increased Cost for EX/SES Pay Raise (P.L. 101-196)	--	--	79	--	--	48	--	--	--	--	--	55	--	--	182
4. Increased Cost for Additional Compensable Day	--	--	181	--	--	48	--	--	--	--	--	62	--	--	291
5. Increased Cost of Health Insurance	--	--	227	--	--	60	--	--	--	--	--	77	--	--	364
6. Increased Cost of Workers Compensation	--	--	7	--	--	2	--	--	--	--	--	3	--	--	12
7. Increased Cost of Other Benefits	--	--	63	--	--	16	--	--	--	--	--	22	--	--	101
8. Increased Cost of Travel and Transportation of Persons	--	--	34	--	--	14	--	--	--	--	--	30	--	--	78
9. Increased Cost of Rent, Communications and Utilities	--	--	894	--	--	213	--	--	--	--	--	421	--	--	1,528
10. Increased Cost of Printing and Reproduction	--	--	118	--	--	38	--	--	--	--	--	16	--	--	172
11. Increased Cost of Other Services	--	--	453	--	--	137	--	--	--	--	--	701	--	--	1,291
12. Increased Cost of Supplies and Materials	--	--	444	--	--	10	--	--	--	--	--	58	--	--	512
13. Increased Cost of Equipment	--	--	312	--	--	17	--	--	--	--	--	35	--	--	364
Subtotal, Adjustments Necessary to Maintain Current Levels	--	--	4,548	--	--	1,060	--	--	--	--	--	2,064	--	--	7,672

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

SUMMARY EXPLANATION OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in Thousands)

	Financial Operations			Federal Finance			FTD Fee Payments			Information Systems			Total		
	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount
Adjustments Necessary to Meet Changes in Workload:															
1. A-76 Adjustments	23	23	186	20	20	162	--	--	--	13	13	100	56	56	448
2. Reallocations	(25)	(25)	(799)	--	--	(25)	--	--	--	25	25	824	0	0	0
Subtotal, Adjustments Necessary to Meet Changes in Workload	(2)	(2)	(613)	20	20	137	--	--	--	38	38	924	56	56	448
Reductions, Non-recurring Costs and Savings:															
1. Non-recurring costs	--	--	(1,409)	--	--	(348)	--	--	--	--	--	(673)	--	--	(2,430)
2. Productivity Savings	(10)	(10)	(3,003)	--	--	--	--	--	--	--	--	--	(10)	(10)	(3,003)
Subtotal, Reductions, Non-recurring Costs and Savings	(10)	(10)	(4,412)	--	--	(348)	--	--	--	--	--	(673)	(10)	(10)	(5,433)
Total, Other Changes	(12)	(12)	(477)	20	20	849	--	--	--	38	38	2,315	46	46	2,687
Total, Increases or Decreases Compared with FY 1990 Authorized Level	(12)	(12)	(59,974)	28	28	9,589	--	--	(18,757)	41	41	2,215	57	57	(66,927)

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

The Financial Management Service (FMS) manages the Federal Government's fundamental financial management activities -- payments, collections, and financial information. It also oversees the manner in which Federal agencies perform to ensure that Government financial management fulfills the high expectations of Congress and the American public. FMS has made significant strides in the quest for improved financial management over the years, and these improvements have dramatically reduced the cost of Government.

The Service's mission involves making approximately 770 million payments totalling $1 trillion annually; managing the mechanisms which collect approximately $1 trillion of revenue for the Federal Government each year; providing leadership, guidance and assistance to Government agencies for cash and credit management and for financial systems; overseeing a daily cash flow in excess of $9 billion; and accounting for and reporting on these activities. Service responsibilities include: providing central payment services for all civilian agencies except the U.S. Postal Service, U.S. Marshals Service and certain Federal corporations; processing and resolving claims on all lost, stolen, and forged Government checks including those not issued by the Treasury; operating the Government's collection systems; providing central accounting services for the Government; compiling and publishing financial reports; and managing ever-expanding trust, revolving and deposit fund accounts. The Financial Management Service continues to focus on providing the highest quality service possible, even as its responsibilities expand within the Federal Government.

The Financial Management Service has continuously been called upon to increase its leadership role in the financial management of the Federal Government. The Service's budget request reflects FMS' active pursuit of excellence in financial management Governmentwide. The Service, promoting greater direct involvement with its customers, has provided field representation for several functional areas with the establishment of Customer Assistance staffs located at the Regional Financial Centers. The Service's expanded lead agency responsibilities in cash management, credit administration/debt collection and in financial systems are some of the ways in which FMS is working in partnership with other agencies in a Governmentwide effort to improve financial management.

The Financial Management Service is requesting $218,742,000 and 2,216 FTE positions in FY 1991. The proposed budget continues an investment in the operational areas that generate the highest productivity savings, and supports further technological advances to keep current with the Federal agencies and the private sector organizations with which FMS interacts.

This budget request reflects a major change in the way that the costs incurred in the issuance of Social Security Trust Funds benefit payments will be handled. Beginning October 1, 1990 and thereafter, the Financial Management Service will be fully and directly reimbursed from these Trust Funds for the non-personnel costs that it incurs in the issuance of these payments, including all physical costs associated with payment preparation and postage. Prior to the enactment of this provision, these Trust Funds reimbursed the General Fund of the Treasury for services performed rather than FMS directly. Since the direct reimbursement costs for FY 1991 are projected to be $59.3 million, the Service's request for direct funding was reduced accordingly.

The Service's FY 1991 Budget also reflects a major change in the Treasury Tax and Loan (TT&L) Fee Payment program. Large depositaries will no longer be paid the nominal per coupon fee for processing Federal Tax Deposits (FTD). Participating depositaries classified as "large" process greater than $10 million in FTD flow annually. These financial institutions will continue to be compensated by the one-day use of funds for the services they provide the Federal Government. The Service does not anticipate any negative impact to the processing of the Government's revenue flow as a result of this change.

Congress has given the Secretary of the Treasury broad discretion to deposit public money in financial institutions and to obtain banking services from those institutions. The Service uses compensating balances to reimburse banks for facilitating the collection of approximately $321.4 billion of Government receipts. FMS' budget does not include funds to compensate banks for these services. The Service has incurred $61.9 million in expenses which have been offset using compensating balances. Collection mechanisms which accelerated fund movement have resulted in net interest earnings to the Government of $320 million (FY 1989 actual amounts).

This FY 1991 budget request includes funds which are essential to the Service's continuing modernization efforts, aimed at improving the Government's financial systems, as well as for several initiatives which are essential to the Service's mission. The specific initiatives and resource requirements included in this request are as follows: Electronic Certification ($1.1 million and 3 FTE positions); STAR ($2.6 million); ADEPT

Enhancements ($50 thousand); Project U.S.A. ($0.6 million and 8 FTEs); Electronic Benefit Services ($1.3 million); Guaranteed Loan Management Program ($3.5 million); Government Credit Standards ($0.3 million); Federal Tax Refund Offset Program ($0.3 million); and Litigation ($0.3 million). This request seeks $7.7 million for inflation-related increases to maintain current services levels (MCLs). This budget request also includes base funds of $14.7 million for the System 90 project, FMS' integrated payment, claims and financial information system.

1. **Financial Operations.**

a. Field Operations. This activity prescribes Federal Government payment policy; issues timely payments for Federal civilian agencies through checks and electronic funds transfers (EFT); issues bonds; processes EFT claims; performs the initial work on check claims; and provides full field representation for other functional areas of the Service. The basic goal of Field Operations is to ensure efficient delivery systems for all payments (e.g., Social Security benefits, Veterans Administration Compensation, and Pension and Civilian salary payments). Field Operations also provides Agency Accounting cross-servicing to other agencies on a reimbursable basis.

In FY 1991, productivity savings will result from the greater use of Direct Deposit/ Electronic Funds Transfer, implementation of Zip+4 and barcoding, as well as the increased use of credit cards. These efforts will result in postage savings to the Government.

FY 1991 resources will fund the Electronic Certification initiative which will provide a more secure and efficient certification process for payment vouchers. Specifically, this funding will permit expansion of the microcomputer-based electronic certification system to serve all customer agencies with small volume payment files nationwide. The FY 1991 budget reflects savings of 10 FTE positions in OCR operations at the RFCs expected from electronic certification efforts occurring in FY 1990.

b. Headquarters Operations. This activity maintains the control and financial integrity of the Federal payments and collections processes, which includes conducting reconciliation, accounting and claims activities. It adjudicates and settles claims against the United States resulting from instances in which Government checks have been forged, lost, stolen, destroyed or mutilated, and collects monies from those parties having liability to the United States resulting from the improper negotiation of Government checks. Through reconciliation processes, approximately $41 million in check payment overcharges are recovered annually on behalf of the Government and millions of dollars of improperly classified collections are identified and properly credited.

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c. General Financial Services. This program provides essential accounting and financial services for the Service's management of Governmentwide programs in Federal credit, working capital, cash management, and Governmentwide accounting activities. In addition, General Financial Services assists the Service in providing accounting and financial services to customers in the areas of trust funds, Government funds investment, and insurance company certification. This program is responsible for servicing foreign loans, including documenting and collecting unsettled claims on foreign governments, and for foreign currency accounting. The Service acts as the Secretary of the Treasury's accountant for several major credit accounts and trust funds including the Federal Financing Bank; D.C. Government loan accounts; the International Monetary Fund, the World Bank, and other multilateral and international accounts; the two Social Security Trust Funds; the two Medicare Insurance Trust Funds; the Unemployment Trust Fund; the Highway Trust Fund; the Airport and Airway Trust Funds; and the St. Lawrence Seaway Toll Rebate Program. The Service is regularly given the responsibility by Congress to administer new trust funds created under the trust fund sections of the Internal Revenue Code, as well as other accounts, for the Secretary of Treasury.

2. Federal Finance

The Federal Finance program is designed to adapt private sector cash management, credit administration and debt collection practices and technologies to the Government's financial management. Federal Finance is responsible for overseeing the accounting control and financial reporting functions of the Federal Government, as well as for the management and operation of the Government's collection systems. The FY 1991 programs and initiatives in this area respond directly to many of the President's Management By Objective priorities.

Through a series of daily, monthly, and yearly reports, Federal Finance is the official source of information on the financial condition of the U.S. Government; the sole source of reporting Government expenditures against the budget; and reports upon the Federal deficit or surplus. The reports prepared include the Daily Treasury Statement, Monthly Treasury Statement, Treasury Bulletin, Annual Report to Congress, and the Annual Consolidated Financial Statement. These official Government Statements are widely used by top managers, economists, investors, business analysts, and other interested parties, both within the Government and in the private sector. Federal Finance is also responsible for developing policies, procedures, tools, and standards for cash management, credit

administration and debt collection; and for devising and implementing Governmentwide initiatives and systems to improve cash, credit, and debt collection activities within Government agencies.

The Service's Federal Finance programs have achieved measurable results, earning and saving billions of dollars and providing improved, more efficient services to every American. These benefits were achieved by establishing improved business practices to better manage the Government's annual cash flow and credit programs.

The Service will continue to work in partnership with the Office of Management and Budget, and with agency financial and program managers to refine previous efforts and expand new efforts to improve Governmentwide financial management. The resources requested for Federal Finance's FY 1991 initiatives will enable the Service to:

- Complete full system development of the STAR project. This project will replace the current paper-based, labor-intensive, error-prone financial information system. This is the only system that provides financial information to line managers across the Government, and enables them to audit and control disbursements and collections made to their accounts. The system also provides receipt and outlay figures that are used to produce reports on the financial status of the Government.

- Place the Treasury Financial Statement 2108 (Reports by Agencies on Unexpended Balances of Appropriations and Funds) and the SF-133 (Report on Budget Execution) data into the Accounting Database for Evaluating Performance Trends (ADEPT) system. ADEPT Enhancements will ensure the accuracy of the Government's financial position as reflected in published Treasury figures.

- Develop a comprehensive, consistent approach to improving financial management in the Federal Government. Project U.S.A. will provide agencies with financial management models to use, train the Government's financial managers on ways to better manage their accounts, and develop assessment tools for financial management performance.

- Enhance the level of service to the benefit recipient population who have no bank accounts (the unbanked) by offering an electronic delivery alternative through plastic access cards and electronic technology. Electronic Benefit Services will decrease lost/stolen checks while eliminating check cashing fees for these recipients.

- Develop a Guaranteed Loan Management Program to reduce one of the Government's largest potential risks -- defaults on guaranteed loans. This initiative will standardize guaranteed loan operations in program agencies, as well as standardize reporting from financial institutions to program agencies and from agencies to FMS and OMB. This program will also improve receivables information for Treasury and OMB and enhance the management of guaranteed loans at Federal program agencies and financial institutions.

- Assess the credit cycle and create an integrated structure of systems standards and guidance to improve Governmentwide credit management and debt collection. The purpose of the Government Credit Standards initiative is to move agencies toward automating as many credit management functions as is feasible and realistic in order to increase efficiency and accelerate the collection of delinquent debt.

- Develop and implement additional provisions of the Deficit Reduction Act of 1984 and the Federal Tax Refund Offset Program. The incorporated provisions will result in an increase in collections from delinquent debtors, totalling approximately $210 million from FY 1992 through FY 1995.

3. Federal Tax Deposit Fee Payments

This activity oversees fee payments made to small and minority financial institutions for the accounting and processing services they provide the Government in the collection of Federal Tax Deposits. The major goal of this program is to ensure that financial institutions provide the level of service required by Treasury and that participating small and minority financial institutions are adequately compensated, beyond the value of one-day float, for the services they provide.

The Service currently pays participating small and minority commercial depositaries $.50 per transaction processed to ensure adequate compensation. This submission continues the trend begun in FY 1989 to reduce fees paid to large institutions (institutions handling more than $10 million in FTD flow annually). Only 25 percent of participating institutions are defined as "large", although they handle the vast majority of the funds. A change in the regulation governing the payment of Federal Tax Deposit fees was implemented in FY 1989 to accommodate the reduction in these fees to large institutions. However, with this FY 1991 budget request, large financial institutions are no longer compensated beyond the value of one-day float for the services they provide.

4. Information Systems

Information Systems is responsible for the design, development, implementation, and in many cases, the operation of information and financial management systems that promote the financial integrity of the Federal Government. Future improvements in Governmentwide financial management depend, to a large degree, on the planned, coordinated application of advanced information technologies. Success in this area requires constant assessment of existing systems, identification of future requirements, research into effective applications of new technologies and techniques, and the formulation of plans to improve data processing and communications operations.

Information Systems implements and manages the technology and systems essential to meeting FMS' current obligations and future public service commitments. In support of these responsibilities, Information Systems sustains a large number of developmental efforts to enhance the payments, collections, accounting, reporting and information resource management functions of the Service. The purpose of these efforts is to ensure the integration, compatibility and efficiency of the Service's information systems as obsolete and disparate systems are replaced by more modern and reliable equipment.

Information Systems also provides data processing and telecommunications services to support the Service's headquarters operations. This program is responsible for providing the computer support services necessary to maintain the Service's essential internal and Governmentwide systems -- systems such as the Check Payment and Reconciliation System (CP&R) and the redesigned Central Accounting System (STAR). Specific functions include operating and maintaining all central facility computer systems and the data communications network; scheduling and processing development and production workloads; installing and tuning operating system software; planning and coordinating hardware installations; providing user support services; and acquiring ADP and telecommunications equipment, software, services and supplies.

The System 90 project, funded in the base, is the cornerstone of the Service's future operating environment. To bring FMS' financial operations into the 21st century, System 90 will replace obsolete, unreliable and incompatible computer equipment with an integrated payment, claims, and financial information system under an appropriate systems architecture. Integrated hardware and software, a secure telecommunications network, and related support capabilities will be developed and installed in the Regional Financial Centers (RFCs). Completion of these systems in the early 1990s will allow efficient electronic transfer of standardized payment data between RFC systems, the National Computer Center, the Federal Reserve System and agency systems, ensuring the integrity and

effective delivery of Federal payments as well as a more efficient claims operation. In FY 1991 the Service will continue progress on this project by completing development and pilot site renovations, installing new systems hardware in these sites, and continuing the development of the Payment, Claims and Enhanced Reconciliation (PACER) software begun in FY 1990.

Additional FY 1991 resources are required to fund FTE positions in support of the Electronic Certification project. These FTEs are necessary to support the Electronic Certification roll-out and its maintenance in additional customer agencies. Without these three positions, system security could be compromised, and staff will not be readily available to assist agency personnel in resolving problems and operating their systems.

DEPARTMENT OF THE TREASURY

FINANCIAL MANAGEMENT SERVICE

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Financial Management Service, ($285,669,000) $218,742,000, of which not to exceed ($14,864,000) $13,287,000 shall remain available until expended for systems modernization initiatives. (Reorganization Plan No. III of 1940, Executive Order No. 6166; 12 U.S.C. 121, 122, 413, 416, 417, 420; 31 U.S.C. 144, 146 - 148, 157, 545, 548, 561, 686, 1023 (b).)

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FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

SELECTED PERFORMANCE MEASURES

Activity and Principal Workload Factors	FY 1989 Actual	FY 1990 Program in FY 1990 Budget	FY 1990 Program in FY 1991 Budget	FY 1991 Estimate
1. Financial Operations:				
A. Payments Workload (000):				
Financed by Appropriation:				
(1) Veterans Administration:				
a. National Service Life Insurance	1,767	2,025	2,047	2,002
b. Regular	42,417	48,597	49,136	48,046
Total Veterans Administration	44,184	50,622	51,183	50,048
(2) Social Security:				
a. Benefits	458,053	466,790	470,230	0
b. Supplemental Security Income	53,640	54,899	57,178	58,875
Total Social Security	511,693	521,689	527,408	58,875 _1/
(3) Tax Refunds	83,635	86,355	84,000	84,000
(4) Other Regular Agencies	107,131	96,876	94,158	94,721
Subtotal Payments	746,643	755,542	756,749	287,644
(5) Savings Bonds	4,379	3,700	4,000	4,000
Total Workload Financed by Appropriation	751,022	759,242	760,749	291,644 _1/
Financed by Reimbursement:				
(1) Social Security:				
a. Benefits	0	0	0	478,577
(2) Railroad Retirement	12,045	11,200	11,775	11,537
(3) Savings Bonds	994	1,000	1,000	1,000
Total Workload Financed by Reimbursement	13,039	12,200	12,775	491,114 _1/
Total Workload	764,061	771,442	773,524	782,758
B. Check Claims Settlement Workload (000):				
Financed by Appropriation	1,893	1,930	1,911	1,911
Financed by Reimbursement	19	20	19	19
Headquarters Operations Total Workload	1,912	1,950	1,930	1,930

Activity and Principal Workload Factors	FY 1989 Actual	FY 1990 Program in FY 1990 Budget	FY 1990 Program in FY 1991 Budget	FY 1991 Estimate
2. Information Systems:				
A. Checks Paid and Reconciled Workload (000):				
Financed by Appropriation	523,923	570,000	529,500	529,500
Financed by Reimbursement	6,500	7,068	6,500	6,500
Checks Paid and Reconciled Total Workload	530,423	577,068	536,000	536,060
3. Federal Finance:				
A. Cash Management Mechanisms:				
(1) Estimated Interest Savings ($mil)	1,094	1,344	1,314	1,314
(2) Cash Management - Number of New Agency Initiatives	90	80	85	85
B. Credit Administration				
Credit Administration, Est. Savings ($mil)	542	445	620	630

_1/ These changes in workload reflect the passage of language enabling the Financial Management Service to obtain direct reimbursement from the Social Security Trust Funds for payment issuance beginning October 1, 1990.

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DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full Time Equivalent Positions)

	Actual 1989	Estimated 1990	Estimated 1991	Increases/Decreases for 1991: Total Changes	Program Changes	Other
Managerial and Administrative Direction	43	42	42	--	--	--
Accounting and Budgeting	346	346	352	6	--	6
Accounting Technicians	212	178	178	--	--	--
ADP Personnel	415	415	429	14	3	11
Management Analysts and Technicians	55	55	63	8	--	8
Program Analysts	226	226	244	18	8	10
Claims Examiners and Clerks	183	98	98	--	--	--
Personnel and Procurement	73	73	76	3	--	3
General Administrative and Office Services	285	285	288	3	--	3
Typists (including check typists), Stenographers, and Secretaries	195	195	198	3	--	3
Other Machine Operators	88	88	88	--	--	--
Laborers	18	18	18	--	--	--
Miscellaneous Occupations	46	46	48	2	--	2
Subtotal	2,185	2,065	2,122	57	11	46
Part-time & temporary Full Time Equivalent positions	94	94	94	-------	-------	-------
Total Full Time Equivalent positions	2,279	2,159	2,216	57	11	46

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to Congressional action on the FY 1990 President's Budget Request and as a result of other workload and cost changes, the Financial Management Service (FMS) proposes the following adjustments in FY 1990 spending ($000):

Object Classification		Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9	Personnel Compensation....	$ 66,497	$ (222)	$ 2,130	$ 68,405
12.0	Personnel Benefits.....	11,483	(3)	320	11,800
21.0	Travel and Transportation of Persons.....	1,508	---	---	1,508
22.0	Transportation of Things..	586	---	(141)	445
23.1	GSA Rent.....	15,066	---	---	15,066
23.3	Communications, Utilities and other Rent.....	107,879	(171)	(125)	107,583
24.0	Printing and Reproduction.	3,635	(256)	(925)	2,454
25.0	Other Services.....	36,651	(1,829)	(1,076)	33,746
	Federal Tax Deposit (FTD) Fee Payments.....	24,644	(343)	---	24,301
26.0	Supplies and Materials....	12,587	(900)	(183)	11,504
31.0	Equipment.....	9,159	(302)	---	8,857
	TOTAL.....	$ 289,695	$ (4,026)	$ 0	$ 285,669

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

Activity	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
Financial Operations:				
Field Operations	$ 169,969	$ (2,374)	$ 1,166	$ 168,761
Headquarters Operations	27,276	(307)	(5,006)	21,963
General Financial Services	2,239	(34)	250	2,455
Total Financial Operations.....	199,484	(2,715)	(3,590)	193,179
Federal Finance.....	21,438	(315)	1,520	22,643
FTD Fee Payments.....	24,644	(343)	---	24,301
Information Systems.....	44,129	(653)	2,070	45,546
TOTAL.....	$ 289,695	$ (4,026)	$ 0	$ 285,669

Explanation of Congressional Action

G-R-H sequestration (P.L.s 99-177, 100-119, 101-239) reduced the Service's FY 1990 funding level by $4,026,000. An across-the-board cut was taken in each of the four program areas reflected above. These changes will affect the following programs and initiatives:

Payment Issuance

- Resources for the purchase of check processing supplies have been reduced. The volume of supplies on hand and those budgeted for in FY 1990 should be sufficient to issue all FY 1990 payments, but only at the expense of reducing FMS' inventories. These on-hand inventories are FMS' insurance against failing to issue payments due to fluctuations in supply from the private sector. Depleting these inventories will increase FMS' vulnerability to paper or printing industry strikes.

Reconciliation and Claims Processing

- o A reduction in the funds available to support reconciliation and claims processing operations could result in FMS being unable to process incoming and pending claims within normal timeframes. This already long (45 days on the average) process would be further lengthened, resulting in benefit recipients and other claimants not receiving timely responses regarding their claims.

- o Reductions in overtime in computer operations could lead to delays in the reconciliation of check payments and could further delay claims processing. However, FMS now anticipates that sufficient personnel compensation monies to cover overtime expenses will be generated by the hiring freeze that was effective October 17, 1989.

Systems Development and Operations

- o Reductions in contract funding will lead to delays in system development work being performed by outside contractors. To ensure full funding for STAR in FY 1990, new initiative funding for the STAR-PLUS, FTD Redesign, and Foreign Currency Accounting System (FCAS) projects has been reprogrammed. The following impacts are anticipated:

  - * Delay study to join STAR and ADEPT. STAR-PLUS will link agency and program asset, liability and budget execution data into one database capable of analyses and financial projections. Governmentwide savings resulting from eliminating duplicate reporting and improving financial management will be delayed.

  - * Reduction in our ability to coordinate with the Internal Revenue Service to assure that we preclude potential system design and integration problems.

  - * Postpone automation of the FCAS, which will force us to continue to rely on the current manual system longer.

- o The funding authorized for the Facilities Modernization initiative will be reduced by half. This action will slow renovation work being done in Regional Financial Centers to improve productivity and space utilization.

- o The per coupon fee payments made to large depositories participating in the collection of Federal Tax Deposits were reduced in FY 1990 to $0.25 per coupon processed. In addition, actual volumes through January 1990 are lower than original estimates. FMS is counting on this trend, and the lower reimbursement amount, to cover the shortfall caused by sequestration.

Explanation of Reprogramming

Due to changes in workload and cost estimates, the Financial Management Service proposes to adjust FY 1990 programs submitted to the Congress in the FY 1990 budget as follows.

- Redirection of funds of $2.1 million to absorb the FY 1990 3.6% pay raise. These funds are being derived internally from the Transportation of Things (-$141,000); Communications, Utilities and Other Rents (-$125,000); Printing and Reproduction (-$925,000); Other Services (-$726,000); and Supplies and Materials (-$183,000) object classes. These changes will permit FMS to meet its payroll obligations, although the reductions taken to absorb this pay raise will only exacerbate the situations described above under the effects of G-R-H sequestration.

- Redistribution of Personnel Resources:

  - - $1,183,000 and -26 FTEs from Financial Operations
  - + $315,000 and 4 FTEs to Federal Finance
  - + $868,000 and 19 FTEs to Information Systems

  This reprogramming in personnel resources was effected to reflect changes in the Service's workload. The impact of productivity savings in the Headquarters Operations area has led to a reduction in force, a portion of which are reflected in this budget. This comes as a result of the Service's efforts to modernize and automate many of the operational processes within that activity. The automation of manual processes has allowed FMS to shift personnel resources from processing operations (primarily in accounting and claims processing) to Governmentwide financial management and information services in response to increases in workload and responsibilities.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

In FY 1991, funding requirements for the Financial Management Service (FMS) are projected to be $218,742,000. Gross increases of $18,123,000 are offset by $85,050,000 in program reductions and non-recurring expenses; resulting in a net decrease of $66,927,000 from the FY 1990 funding level of $285,669,000. Also required in FY 1991 is an increase of 57 FTE positions over FY 1990 staffing levels.

PROGRAM CHANGES

Total Requested Program Changes..... $(69,614,000)
11 FTE Pos.

The program changes requested for FY 1991 will improve the quality of financial services FMS provides to the Federal Government and the American public. New and expanded initiatives will permit the secure and accurate transmission and certification of payment data; increase the accessibility of financial information to meet the increasing demand for accurate and timely data; and promote financial management reforms, providing mechanisms to improve credit administration Governmentwide. A change is also being made to the Treasury Tax and Loan (TT&L) Fee Payment Program; as of October 1, 1990, large depositaries will no longer be paid a per coupon fee for processing Federal Tax Deposits. The largest program change in FY 1991 is to the method by which the Social Security Administration (SSA) reimburses Treasury for processing benefit payments. Beginning in FY 1991, SSA will reimburse FMS directly for the costs incurred in the issuance and distribution of these payments, rather than the reimbursement being paid to the General Fund of Treasury. Program changes are broken down into the following object classes:

Personnel Compensation and Benefits	$ (430,000)
Travel and Transportation of Persons	45,000
Transportation of Things	(106,000)
Communications, Utilities and Other Rent	(51,722,000)
Printing and Reproduction	21,000
Other Services	(14,233,000)
Supplies and Materials	(4,052,000)
Equipment	863,000

1. Electronic Certification $1,123,000
3 FTE Pos.

Electronic certification represents one of the most significant technological advances in financial and business operations since computers were first widely used thirty years ago. It permits the secure and accurate transmission and certification of payment data, enabling that data to be communicated more quickly and eliminating highly labor-intensive processing of paper documents.

The General Accounting Office (GAO) and Treasury's Inspector General have both identified the manual signature certification and verification steps of payments processing as a major weakness in the Government's payment systems. The current process requires a significant number of paper-based manual operations to be performed in both Federal Program Agencies (FPAs) and the Service's Regional Financial Centers (RFCs). The process is not only time-consuming -- increasing the potential for violations of the Prompt Payment Act -- but vulnerable to fraud and abuse -- millions of dollars could be fraudulently certified and issued without an agency's knowledge.

FMS has developed an Electronic Certification Prototype System that has been tested and approved by GAO for operational use. This system currently serves nine of the Washington Financial Center's (WFC's) customer FPAs, and will be expanded during FY 1990 to accommodate additional agencies. The prototype system allows agencies to generate and certify voucher schedules on microcomputers, then transmit the payment data to the WFC over telephone lines. Payments are verified and accepted using new message authentication technology, and further processing is accomplished via established automated means.

The FY 1991 funding requested for this initiative will permit expansion of the microcomputer-based electronic certification system to serve all customer agencies with small volume payment files nationwide. Customer demand for a more reliable and efficient means for transmitting payment data -- and the Service's commitment to quality service -- generates the need for the current system to be expanded, an interim measure until System 90 is fully implemented in the mid-1990s. Additional ADP and communications equipment is required to augment the existing RFC mainframe computer systems, and specialized electronic certification key management systems and security equipment must be acquired for both customer agency microcomputers and the RFC systems. Additional FTEs are necessary to support system roll-out and its operation in additional customer agencies.

Since the current electronic certification system is microcomputer-based, it cannot handle large volume payment files such as benefit payments, tax refunds, Federal salaries, and large vendor/miscellaneous tape files. However, the electronic certification process is applicable to large volume payment files, and a host-to-host system is being developed to fill this need. Both microcomputer-based and host-to-host applications of electronic certification will be incorporated into System 90 when that system becomes operational, permitting the secure transmission of large and small payment files nationwide.

Personnel Compensation and Benefits	$ 126,000
Travel and Transportation of Persons	3,000
Communications, Utilities and Other Rent	19,000
Printing and Reproduction	1,000
Other Services	46,000
Supplies and Materials	3,000
Equipment	925,000

2. STAR..... $2,600,000

FMS operates the only system that provides financial information to managers across Government, and enables them to audit and control disbursements as well as collections made to their accounts. This system also provides receipt and outlay figures used to produce reports on the financial status of the Government. The current system is a paper-based, labor-intensive, error-prone system, unresponsive to new information needs and inadequate for timely control of agency operations. These problems lead to the degradation of Government financial information, and thus, financial management. STAR was initiated to upgrade the Governmentwide budget execution system which ensures the integrity of the Government's multi-billion dollar receipts and outlays. It is the only source of fundamental information upon which the Government's financial status is based.

The Service is committed to full development of the redesigned central accounting system (STAR), however, additional resources are needed to complete module implementation. The additional funding FMS is requesting in FY 1991 will provide for full completion of the STAR system. Current funding will, at best, only provide for approximately half of the necessary system development. Full implementation of all modules is mandatory for completion of STAR. Failure to complete system development will leave the Government with a "hybrid" system -- part old and part new. Such a system will not be a reliable base upon which to operate the Government's most fundamental financial control and information system, and redundancies between the old and new systems will greatly increase personnel costs and maintenance complexity.

STAR will provide on-line access and analysis of "real-time" Governmentwide financial management information to some of FMS' most important customers, including (1) the Office of Management and Budget, which wants to use STAR to assist in preparing the President's Budget and tracking its execution; (2) the General Accounting Office, which can use STAR to support its audit and investigative functions; (3) the Office of the Fiscal Assistant Secretary, which will use STAR to support its cash forecasting responsibilities; and (4) Federal Program Agencies, which use STAR to determine the disposition of their financial resources. As the only available source of Governmentwide financial results, FMS will use STAR to (1) replace current automated processes which cannot reliably furnish receipt and outlay totals, and financial control information to agencies, banks and disbursing officers in the 1990s; (2) reduce information delays from months to hours; (3) provide more timely and accurate results through improved system design; and (4) enhance capabilities to access and analyze the Government's financial information.

Other Services..... $ 2,600,000

3. ADEPT Enhancements..... $50,000

ADEPT, the Accounting Database for the Evaluation of Performance Trends, is FMS' database for asset and liability information. ADEPT serves as the Government's system for reviewing and reconciling the Federal Agency Financial Reports and for monitoring credit and debt collection activities. The ADEPT system is primarily used by central agencies, but is also available to interested program agencies and private concerns.

ADEPT contains financial information reported by Federal agencies as required by the Treasury Financial Manual Chapter 2-4100. Agencies submit these reports to Treasury, with the information contained in the reports forming the basis of all published Governmentwide figures and the stated financial position of the Federal Government. These published figures affect all parts of the economy, since most major Federal funding decisions are based on the financial data they contain.

The need for a data integrity function within FMS is critical. Currently, FMS collects and publishes central accounting results and related financial reports, as well as establishes reporting requirements for gathering necessary information. However, the Service lacks resources to analyze the quality of the financial information being accumulated and reported. Lack of confidence in the data has resulted in multiple requests for the same data and duplicate databases. Due to the uncertainty of data, it has not been used for financial analysis or to provide guidance in the analysis of agency asset and liability data.

Future ADEPT Enhancements will ensure the accuracy of the Government's financial position as reflected in published Treasury figures, as well as provide tools for Federal financial managers analogous to those used in the private sector, thus allowing efficient decision-making and reducing the likelihood of incorrect financial decisions. Specifically, in FY 1991 this initiative will place the Treasury Financial Statement 2108 (Reports by Agencies on Unexpended Balances of Appropriations and Funds) and the SF-133 (Report on Budget Execution) data on the ADEPT system.

Other Services..... $ 50,000

4. Project U.S.A..... $600,000
8 FTE Pos.

Project U.S.A. (Unified Systems Approach) is FMS' blueprint for developing a consistent, comprehensive approach to improving the Government's financial management. It stems from the Service's firm belief that Federal managers must have proper financial controls, tools, and well-trained program managers at their disposal to administer the Government's finances. Project U.S.A. will study at least five major agencies' headquarters and field offices to identify and develop a series of financial management models of excellence for agency use. FMS expects to uncover deficiencies while reviewing agency programs for potential model components.

The project team of eight FTEs, experienced in financial management, as well as skilled program managers with a strong understanding of the Federal agency organization, will work with agencies to implement improvements where weaknesses are uncovered. Independent assessments directed by members of the team will also be used to determine the effectiveness of standards adopted by various agencies. Project U.S.A. will create systems and programs to provide timely, accurate and accessible information as well as devise new information products and evaluation processes. Project U.S.A. will also outline program managers' financial control responsibilities and identify the best instructional methods for teaching the benefits of sound financial management to Federal financial managers.

Personnel Compensation and Benefits	$ 417,000
Travel and Transportation of Persons	42,000
Communications, Utilities and Other Rent	28,000
Printing and Reproduction	20,000
Other Services	20,000
Supplies and Materials	15,000
Equipment	58,000

5. Electronic Benefit Services..... $1,350,000

Eight million Federal benefit recipients cannot receive their funds electronically because they do not have bank accounts -- they are unbanked constituents. FMS must use the costly paper check process to deliver 100 million checks to these benefit recipients each year. The Service has identified Electronic Benefit Services (EBS) as an alternative to deal with this problem. EBS is the delivery of benefits through plastic access cards and other electronic technologies such as Automated Teller Machines (ATMs) and point-of-sale (POS) terminals. The goals of the EBS program are: to enhance the level of service to the vast number of unbanked benefit recipients by offering an electronic delivery alternative; to reduce the paper-based system costs by delivering benefits electronically; and to encourage multiple delivery of benefits via a single access card to those who receive several different benefits. Additionally, 20 million unbanked state benefit recipients would gain from Federal support for a nationwide EBS program in the future.

The use of "plastic" cards by the American public for retail purchasing, banking and other purposes has increased enormously in recent years. Card technology is advancing even more dramatically. Together, the proliferation of cards among the public and the emergence of proven, reliable technology indicates an extraordinary opportunity and a challenge to serve the unbanked population through plastic access cards and available electronic technology. According to a recent GAO report, millions of citizens are unable to cash Government benefits checks at financial institutions due to the banking industry's growing refusal to serve non-customers. Traditionally, the banking industry has "written-off" these people as unprofitable. This predicament has forced the unbanked to cash Government checks at grocery and liquor stores or check cashing centers, where they must pay check cashing fees ranging as high as $50 for a $500 check. In fact, of those households making less than $10,000 annually, 56 percent do not have bank accounts for various reasons, including high service charges, minimum balance requirements, financial institution mistrust, and an inability to understand banking services.

OMB has designated this program as a Presidential Management by Objective (MBO) and directed FMS to develop a Governmentwide EBS program. Resources are needed to (1) define an EBS program, both long and short range; (2) implement and evaluate EBS pilot programs; (3) conduct marketing campaigns to enlist volunteers and train recipients; (4) develop Governmentwide EBS policy guidelines; and (5) issue an Annual Report to the President on the progress attained in developing EBS.

Other Services..... $ 1,350,000

6. Guaranteed Loan Management Program..... $3,500,000

At the end of FY 1989, the Federal Government held over $588 billion in outstanding guaranteed loans. Despite this enormous contingent liability, agency systems and procedures for monitoring guaranteed loans are seriously inadequate. For example, program agencies do not routinely gather information on the condition of their guaranteed loan portfolios.

Too often guarantee portfolios are viewed by agencies as the sole responsibility of the lending institutions. As a result, agencies are often surprised by the magnitude of defaults on guaranteed loans and are unable to identify opportunities to minimize losses before these loans reach the default stage. Defaults on guaranteed loans totalled $10.7 billion in FY 1989 and the total is expected to rise to $12.2 billion in FY 1990. Agencies must develop and implement sound guaranteed loan management practices to ensure that the taxpayers' interests are protected.

The Guaranteed Loan Management Program will be a major effort towards improving guaranteed loan management Governmentwide. This effort will: 1) examine current lender-agency relationships; 2) determine the extent to which agencies have established and are enforcing sound due diligence requirements; 3) develop and implement minimum standards for lender screening, servicing, and collection of debts including assessing penalties for failing to meet Federal credit management standards.

The goal of this initiative is reduced defaults of guaranteed loans through rigorous application of standards for monitoring and managing guaranteed loan programs by Federal program agencies and financial institutions. This will include timely standardized reporting from lending institutions to program agencies and from program agencies to central financial management organizations (e.g., FMS and OMB) that can serve as an early warning system for problems in the guaranteed loan portfolio.

During FY 1991, new Governmentwide guaranteed loan standards and data requirements will be published in the Treasury Financial Manual. FMS will also redesign the Schedule 8 Report, "Direct and Guaranteed Loans Reported by Agency and Program", and design a system to transmit this data from the agencies to Treasury.

Other Services..... $ 3,500,000

7. Government Credit Standards..... $280,000

The purpose of the Government Credit Standards initiative, formerly known as the Account Servicing Modernization initiative, is to automate as many credit management functions as is feasible and realistic at the agency level. This request will continue efforts begun in FY 1989 to identify opportunities for full agency participation in the use of credit management tools via cross-servicing arrangements, private sector referral, and microcomputer applications and links. Currently, agencies use a variety of incompatible automated systems to perform debt collection servicing activities and do not take full advantage of available credit management tools, seriously impeding the tracking and collection of delinquent debts. Without the development of uniform systems, collection rates will continue to decline as delinquency rates rise.

In FY 1989, FMS contracted for a study to review agency systems to assess the Government's entire credit management/debt collection cycle -- manual and automated. Lack of resource support in FY 1990 prevented the Service from following through on recommendations made to Federal agencies on how to improve their credit systems. Renewed resource support for this initiative in FY 1991 will enable the Service to: 1) create Governmentwide standards for credit file structure and use; 2) provide agency program managers with information on state-of-the-art tools and techniques for timely management of delinquent debt; 3) supply technical assistance to agencies upgrading credit management systems; and 4) ensure Governmentwide consistency as credit management and information systems are upgraded. Upgraded systems will provide information that will serve as an early warning to help agencies recognize and correct adverse conditions in their delinquent debt portfolios before problems become more serious.

Other Services..... $ 280,000

8. .Federal Tax Refund Offset Program..... $250,000

The Federal Tax Refund Offset Program for the collection of Federal agency non-tax delinquent debt was first authorized by the Deficit Reduction Act of 1984 as a two-year pilot program. Due to the success of the pilot -- collections totalled $530 million, and as a result of the threat of offset, voluntary payments exceeded $140 million -- the program was first extended six months, and was then reauthorized for an additional five years by the Family Support Act of 1988.

The pilot program was directed towards the collection of consumer debt owed to only a few large agencies. Nevertheless, both Congressional extensions emphasized that in addition to collection of consumer debt to these large agencies, all Federal agencies were to be included in the program, and corporate as well as consumer debt was to be offset. Enlarging this program will significantly increase collections from delinquent debtors. Expansion to new agencies as well as additional accounts from agencies already in the program is expected to collect approximately $210 million from FY 1992 through FY 1995.

The resources requested for this initiative will assist FMS in complying with the new Congressional mandates to expand the Program to all Federal agencies and assist in the development of methods for a corporate tax refund offset program. The Service plans to use personal computer and communication systems to the extent feasibly possible to expand the program to all agencies and increase debt collection from individual consumers. IRS' income tax return computer capability is limited to mainframe computers, therefore personal computer-to-mainframe interfaces will be the most effective and secure way to operate the expanded system. Once fully operational, all funds used for this Program would be reimbursed to the Department of Treasury from collections in accordance with 31 U.S.C. 3720A, Section (d).

Other Services.....	$ 182,000
Equipment.....	68,000

9. Litigation..... $250,000

This initiative supports efforts to establish an automated system for the management and tracking of debts owed the United States Government which are referred to the Department of Justice (DOJ) for litigation. Currently, agency referrals are transmitted manually to Justice and there is no systems linkage between the agencies and Justice's automated litigation tracking system. Justice had cases totalling approximately $6.6 billion in agency referrals outstanding at the end of FY 1989.

The Financial Management Service will work with referring agencies to develop tracking systems compatible with the Justice system based on file specifications provided by DOJ. The Service will also assist agencies in purchasing these systems and in developing systems bridges to link the agencies' tracking systems to Justice.

With funding for this initiative, the Service can assist in improving the way the Government manages and tracks its debt litigation cases. Agencies will be able to better track and monitor Justice progress with regard to their cases; in addition, development of these systems will create opportunities for the automated transmission of debt collection cases to Justice.

Other Services..... $ 250,000

10. Program Reductions to Offset Pay Costs and Other Absorptions.....$(1,563,000)

Program reductions are being taken to partially offset the absorption of the FY 1991 pay raise and to offset additional funding needed to Maintain Current Levels in FY 1991.

Personnel Compensation and Benefits	$ (973,000)
Other Services	(590,000)

11. Other Program Reductions..... $(18,757,000)

Large financial depositories processing Federal Tax Deposits for the Government under the Treasury Tax and Loan Program will not be compensated beyond the value of one-day float, beginning with the October 1990 reporting cycle.

Other Services	$(18,757,000)

12. Social Security Administration Trust Fund Reimbursement..... $(59,297,000)

All funds relating to the direct cost of issuing benefit payments and all "non-personnel" preparation costs for the Social Security Administration Trust Funds will be directly reimbursed by the Trust Funds to the Financial Management Service beginning October 1, 1990.

Transportation of Things	$ (106,000)
Communications, Utilities and Other Rent	(51,769,000)
Other Services	(3,164,000)
Supplies and Materials	(4,070,000)
Equipment	(188,000)

OTHER CHANGES

Total Other Changes	($76,930,000) 46 FTE Pos.
Adjustments necessary to maintain current levels	7,672,000
1. Annualization of January 1990 Pay Act Increases	705,000

This amount represents one-quarter of the FY 1990 base amount for the January 1990 pay raise which was effective for three-quarters of the year in FY 1990.

2. Increased Cost for Proposed FY 1991 Pay Raise	2,072,000

This amount reflects the cost of salaries and benefits for three-quarters of the year for a proposed 3.5 percent pay raise.

3. Increased Cost for EX/SES Pay Raise (P.L. 101-94)	182,000

This amount reflects the cost of salaries and benefits for increases pursuant to P.L. 101-94.

4. Increased Cost for Additional Compensable Day	291,000

This amount reflects the increased cost of salaries and benefits for one additional compensable day in FY 1991.

5. Increased Cost of Health Insurance	364,000

The Office of Personnel Management (OPM) projects a general increase of 15 percent for agency contributions to employee health benefits. This factor has been applied to the FY 1990 base of $2,429,000.

6. Increased Cost of Workers Compensation	12,000

This increase represents the actual 1989 Workers' Compensation Fund billing that will be paid in FY 1991 over that budgeted for FY 1990.

7. Increased Cost of Other Benefits..... 101,000

For all other categories in this object class, which includes Life Insurance, the deflator of 4.2 percent has been applied to the FY 1990 base of $2,410,000.

8. Increased Cost of Travel and Transportation of persons..... 78,000

GSA estimates a 6.5 percent agencywide increase for per diem and motor pool. The deflator of 4.2 percent has been applied to all other categories in this object class.

9. Increased Cost of Rent, Communications and Utilities..... 1,528,000

GSA estimates a 4.4 percent increase for rental of space. This increase has been applied to the FY 1990 base of $12,290,000. The Department of Treasury estimates an increase of $1,150,000 in cost for Digital Telecommunication System (DTS). The Department also estimates a decrease of ($527,000) in cost for Federal Telecommunications Systems (FTS). For all other categories, the deflator of 4.2 percent has been applied to the FY 1990 base of $8,555,000.

10. Increased Cost of Printing and Reproduction..... 172,000

The Government Printing Office (GPO) projects a 7.0 percent increase which has been applied to the FY 1990 base of $2,454,000 to cover costs for GPO Printing, GWA reports, Commercial Printing and other printing.

11. Increased Cost of Other Services..... 1,291,000

Increases reflect the cost of conversion to the new Treasury payroll systems in FY 1991. For the remainder of the increase, the deflator of 4.2 percent has been applied to the FY 1990 base of $30,018,000.

12. Increased Cost of Supplies and Materials..... $12,000

GSA currently estimates a 6.5 percent agencywide increase for GSA supplies. This increase has been applied to the FY 1990 base of $2,313,000. For Subscriptions - Domestic, the deflator of 8.0 percent has been applied to the FY 1990 base of $196,000. For all categories in this object class, the deflator of 4.2 percent has been applied to the FY 1990 base.

13. Increased Cost of Equipment..... 364,000

For all categories in this object class, which include Increased Cost of Equipment, ADP Equipment, Furniture Replacement, Other Equipment, and Purchase of ADP Software, the deflator of 4.2 percent has been applied to the FY 1990 base of $8,669,000.

Adjustments Necessary to Meet Changes in Workload

1. A-76 Adjustments..... $448,000
56 FTE Pos.

This increase is the result of a recalculation by the Treasury Department of projected FY 1990 savings associated with A-76 studies.

2. Reallocations..... 0

These reallocations in personnel resources were effected to reflect changes in the Service's workload. The automation of manual processes has allowed FMS to shift personnel resources from processing operations (primarily in claims processing) to Governmentwide financial management and information services. The increase in automated systems and the Service's System 90 project has also lead to an increase in the number of personnel required for development, operation and maintenance of Governmentwide financial management systems.

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

	Amount
Reductions, nonrecurring costs and savings	$ (5,050,000) (10 FTE Pos.)
1. Nonrecurring Costs	$ (2,430,000)
2. Productivity savings	$ (3,003,000) (10 FTE Pos.)

Nonrecurring one-time expenses consist of ADP contracts in support of the Image Processing initiative; as well as transportation of things and alteration of space in support of the Facilities Modernization initiative. Nonrecurring costs also consist of furniture, equipment, software and ADP equipment required for the Federal Tax Deposit Redesign, Facilities Modernization and System 90 initiatives.

Productivity savings will result from the greater use of Direct Deposit/ Electronic Funds Transfer by payment recipients; implementation of ZIP+4 and barcoding; and other Electronic Funds Transfer initiatives such as Credit Cards to realize postage savings for the Government. Productivity savings will also result from implementation of Electronic Certification in FY 1991, eliminating 10 FTE positions in OCR voucher examination, batching, and scanning at the Regional Financial Centers.

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

Standard Classification Schedule
(Direct Obligations only, $000)

	FY 1989 Actual	FY 1990 Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/Decrease from FY 1990
Total number of permanent positions	2,211	2,096	2,151	57
Full Time Equivalent (FTE) workyears	2,279	2,159	2,216	57
Object classification				
Personnel compensation:				
Permanent positions	865,065	865,243	867,736	92,493
Positions other than permanent	1,335	867	893	26
Other personnel compensation	2,679	2,295	2,305	10
Total personnel compensation	69,059	68,405	70,934	2,529
Personnel benefits	10,686	11,800	12,654	854
Travel and transportation of persons	1,260	1,508	1,766	258
Transportation of things	346	445	287	(158)
Communications, utilities and other rent:				
Postage	97,521	97,288	46,370	(50,918)
Rental of space	13,301	15,066	12,831	(2,235)
ADP lease costs	3,769	4,954	4,649	(305)
Other	6,113	5,341	5,964	623
Printing and reproduction	2,034	2,454	2,657	203
Other services:				
ADP contracts and services	13,213	30,898	25,056	(5,842)
Reimbursement for Banking Services	31,100	26,301	5,544	(18,757)
Other	12,535	13,349	13,531	182
Supplies and materials:				
Purchase of blank checks	3,603	4,047	1,751	(2,296)
Other	4,477	7,457	6,318	(1,139)
Equipment	5,642	9,212	8,430	(782)
Total Obligations	274,639	296,525	218,742	(77,783)
Recovery of Prior Year Obligations	(233)	--	--	--
Unobligated balance available, start of year	(5,019)	(10,856)	--	10,856
Unobligated balance available end of year	10,856	--	--	--
Unobligated balance lapsing	87	--	--	--
Total Appropriation, Authorized Level, and Budget Estimate	280,330	285,669	218,742	(66,927)

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

PAYMENTS ISSUED

EMPLOYEE PRODUCTIVITY, FISCAL YEARS 1969 TO 1991, INCLUSIVE
(Includes items for which reimbursement is received)

Fiscal Year	Workload	TREND ANALYSIS	
		Average production per employee (thousands)	Percent Change
1969	455,782,496	366	8.0%
1970	497,854,599	394	7.7%
1971	519,396,634	414	5.1%
1972	515,357,030	430	3.9%
1973	538,323,196	452	5.1%
1974	586,735,065	478	5.8%
1975	727,021,672	518	8.4%
1976	666,329,949	541	4.4%
1977	675,307,319	565	4.4%
1978	687,455,206	581	2.8%
1979	690,721,795	591	1.7%
1980	711,237,823	585	-1.0%
1981	707,104,415	598	2.2%
1982	711,177,674	611	2.2%
1983	711,926,559	629	2.9%
1984	717,776,479	639	1.6%
1985	725,580,046	667	4.4%
1986	744,252,000	692	3.7%
1987	745,160,000	710	2.5%
1988	751,735,348	732	3.1%
1989	764,060,677	771	5.1%
1990 Est.	773,524,000	786	1.9%
1991 Est.	782,758,000	794	1.0%

FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

Payment and Reconciliation of Checks
Comparative Statement of Check Volumes
Fiscal Years 1986 - 1991
(In thousands of checks)

	Actual 1986	Actual 1987	Actual 1988	Actual 1989	Revised Estimate 1990	Estimate 1991
Dept. of the Air Force.....	12,724	13,945	13,526	11,794	12,367	12,400
Dept. of the Army.....	33,436	29,482	28,592	29,975	28,897	28,900
Dept. of the Navy.....	32,769	24,570	23,798	27,731	25,896	25,900
Postal Service.....	25,420	22,757	22,086	20,812	21,664	21,600
Dept. of the Treasury.....	454,170	489,840	474,998	436,537	441,381	441,400
Misc. Agencies.....	5,152	7,932	7,705	3,574	5,795	5,800
GRAND TOTAL CHECKS PAID	563,671	588,526	570,705	530,423	536,000	536,000
Less: Reimbursables Railroad Retirement.....	(7,815)	(7,237)	(6,990)	(6,500)	(6,500)	(6,500)
Total paid at appropriated fund expense.....	555,856	581,289	563,715	523,923	529,500	529,500

DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate
Senior Executive Service Level 6	0	0	0
Senior Executive Service Level 5	1	1	1
Senior Executive Service Level 4	8	8	8
Senior Executive Service Level 3	3	3	3
Senior Executive Service Level 2	2	2	2
Senior Executive Service Level 1	0	1	1
Subtotal	14	15	15
GS/GM-15	43	42	42
GS/GM-14	115	115	115
GS/GM-13	230	230	230
GS-12	235	240	250
GS-11	112	131	149
GS-10	16	16	16
GS-9	120	104	116
GS-8	109	104	104
GS-7	335	301	318
GS-6	175	165	165
GS-5	271	196	196
GS-4	211	210	210
GS-3	144	144	144
GS-2	7	7	7
GS-1	0	0	0
Subtotal	2,123	2,005	2,062
Ungraded	74	74	74
Total permanent positions	2,211	2,094	2,151
Unfilled positions, end of year	0	0	0
Total permanent employment, end of year	2,211	2,094	2,151

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FINANCIAL MANAGEMENT SERVICE, Salaries and Expenses

DETAIL OF AVERAGE GRADES AND SALARIES

	Actual FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES salary.....	$75,579	$75,120	$87,253
Average GS grade.....	8.23	8.95	8.52
Average GS salary.....	$25,103	$28,469	$29,466
Average salary of ungraded positions...	$24,726	$25,616	$26,513

WEDNESDAY, FEBRUARY 28, 1990.

BUREAU OF ENGRAVING AND PRINTING

WITNESSES

PETER H. DALY, DIRECTOR, BUREAU OF ENGRAVING AND PRINTING
L. PAUL BLACKMER, JR., ASSISTANT DIRECTOR (ADMINISTRATION)
JOEL C. TAUB, CHIEF, OFFICE OF FINANCIAL MANAGEMENT
DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT

OPENING REMARKS

Mr. ROYBAL. The committee will come to order.

The committee is in session this afternoon to hear from the Bureau of Engraving and Printing.

We would like to welcome you, Mr. Daly and welcome also the members of your staff, your colleagues; we always appreciate your visit for various reasons.

Number one, we like to see you at least once a year. And the other reason, of course, is the fact that you are the only bureau that does not come to this committee seeking an appropriation. Therefore, we do not have to worry too much about the final mark-up because an appropriation for you will not be included.

But nevertheless, it is one of the most important bureaus of the Federal Government and we do have some questions to ask. But before that, we would ask you to proceed in any manner that you may desire.

Mr. DALY. Thank you, Mr. Chairman. I am pleased to appear before you to report on the progress of the Bureau of Engraving and Printing during Fiscal Year 1989 and to discuss our future plans. I have prepared a comprehensive statement which, with your permission, can be submitted for the record.

Mr. ROYBAL. Without objection, it will appear in the record at this point.

[The information follows:]

FINANCIAL MANAGEMENT SERVICE, St. Laurence Seaway Toll Rebate Program

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE Positions	Amount ($000)
FY 1990 Appropriation (P.L. 101-164)	5	5	$10,050
Adjustments: FY 1990 Reduction (P.L. 101-164)	0	0	($30)
Authorized Level for FY 1990	5	5	$10,020
Estimate for FY 1991	5	5	$10,789

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in Thousands)

	Actual		Authorized Level		Budget Estimate		Increase (+) or Decrease (-) for FY 1991			
	FY 1989		FY 1990		FY 1991		Total Changes		Program Changes	
	FTE Pos.	Amount	FTE Pos.	Amount	FTE Pos.	Amount	FTE Pos.	Amount	FTE Pos.	Amount
St. Laurence Seaway Toll Rebate Program	5	$11,145	5	$10,020	5	$10,789	0	$769	0	$769
Unobligated balance available, SOY	--	--	--	--	--	--	--	--	--	--
Unobligated balance available, EOY	--	--	--	--	--	--	--	--	--	--
Unobligated balance lapsing	--	--	--	--	--	--	--	--	--	--
Total appropriation, authorized level and budget estimate	5	11,145	5	10,020	5	10,789	0	769	0	769
Permanent positions	5		5		5		0		0	

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

The Harbor Maintenance Revenue Act of 1986 (P.L. 99-662, November 17, 1986) amended the Internal Revenue code to establish a harbor maintenance tax to be collected by the U.S. Customs Service on cargo imported to or exported from the United States, and established the Harbor Maintenance Trust Fund for deposit of these tax revenues. Section 805 of the Act requires that tolls collected by the St. Lawrence Seaway Development Corporation be transferred to the Harbor Maintenance Trust Fund, but that such tolls be rebated to those who were assessed.

The Act assigned the St. Lawrence Seaway Toll Rebate Program administrative and rebate responsibilities to Treasury, which have been assumed by FMS. Funding requirements for the St. Lawrence Toll Rebate Program in FY 1991 are estimated to be $10,789,000, including administrative funds of $261,000 and 5 FTE positions.

Administrative responsibilities include the following:

- Promptly authorizing and making rebate payments;
- Maintaining general ledger accounts, recording receipt and disbursement information, and interacting with the St. Lawrence Seaway Development Corporation to resolve data discrepancies;
- Preparing all reports required by law and regulation and in response to ad hoc requests; providing estimates of program activity for budget and finance estimates;
- Managing the investment activity for transferred receipts awaiting disbursement; and
- Maintaining liaison with the St. Lawrence Seaway Development Corporation, Treasury's Office of Tax Analysis and other involved agencies in order to resolve any policy or management issues.

DEPARTMENT OF THE TREASURY

FINANCIAL MANAGEMENT SERVICE

Federal Funds

General and special funds:

ST. LAWRENCE SEAWAY TOLL REBATE PROGRAM

For rebate of the United States' portion of tolls paid for use of the St. Lawrence Seaway, pursuant to Public Law 99-662, [$10,020,000] $10,789,000, to remain available until expended and to be derived from the Harbor Maintenance Trust Fund, of which not to exceed [$250,000] $261,000 shall be available for expenses of administering the rebates.

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Financial Management Service, St. Lawrence Seaway Toll Rebate Program

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

Funding requirements for the St. Lawrence Seaway Toll Rebate Program in FY 1991 are estimated to be $10,789,000 and five FTE positions. This is an increase of $769,000 from the FY 1990 funding level of $10,020,000.

PROGRAM CHANGES

Total Requested Program Changes ..... $ 769,000

Program Increases:

The program increases requested for FY 1991 consist of increases in administrative costs of $11,000, reflecting an inflation rate of 4.2%; and increases in toll rebates of $758,000. The toll rebate increase from FY 1990 to FY 1991 restores the FY 1990 reduction amount of $30,000 (P.L. 101-164), and further increases the FY 1991 amount expected to be rebated, reflecting revised estimates received from the St. Lawrence Seaway Corporation.

Increases are broken down into the following object classes:

Communications, Utilities and Other Rent	$ 3,000
Other Services	766,000

FINANCIAL MANAGEMENT SERVICE, St. Lawrence Seaway Toll Rebate Program

Standard Classification Schedule
(Direct Obligations only, $000)

	FY 1989 Actual	FY 1990 Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/Decrease from FY 1990
Total number of permanent positions	5	5	5	0
Full Time Equivalent (FTE) workyears	5	5	5	0
Object classification				
Personnel compensation:				
Full-time permanent positions	$122	$131	$131	$0
Other personnel compensation	2	4	4	0
Total personnel compensation	124	135	135	0
Personnel benefits	22	25	25	0
Travel and transportation of persons	0	6	6	0
Rental payments to GSA	2	49	52	3
Communications, utilities, and miscellaneous charges	4	1	1	0
Printing and reproduction	1	1	1	0
Other services	10,990	9,793	10,559	766
Supplies and materials	2	6	6	0
Equipment	0	4	4	0
Total Obligations	11,145	10,020	10,789	769
Unobligated balance lapsing	---	---	---	---
Obligations of prior year funds	---	---	---	---
Total Appropriation, Authorized Level, and Budget Estimate	11,145	10,020	10,789	769

DEPARTMENT OF THE TREASURY

Bureau of Engraving and Printing

Introductory Statement of Peter H. Daly
Director of the Bureau of Engraving and Printing
Concerning the Fiscal Year 1991 Budget

For Presentation to the Subcommittee on
Appropriations

Mr. Chairman and Members of the Committee:

I am Peter H. Daly and I am pleased to appear before you today, to report the progress of the Bureau of Engraving and Printing during fiscal year 1989 and to discuss our plans for future years. I am accompanied by David M. Nummy, Deputy Assistant Secretary for Departmental Finance and Management. Also with me from the Bureau are L. Paul Blackmer, Jr., Assistant Director (Administration); Carl V. D'Alessandro, Assistant Director (Operations); Milton J. Seidel, Assistant Director (Research and Engineering); and Joel C. Taub, Chief, Office of Financial Management.

The Bureau is the Nation's securities manufacturing agency. It designs and produces United States currency, postage stamps, Treasury obligations, and other United States securities. It is also responsible for advising and assisting Federal agencies in the design and production of other Government documents which, because of their innate value, require counterfeit deterrence characteristics.

FINANCING AND CAPITALIZATION

We are not requesting an appropriation for fiscal year 1991. The operations of the Bureau are financed by means of a revolving fund established by Public Law 81-656, approved August 4, 1950. This law authorized the Bureau to be reimbursed by customer agencies for all costs of products manufactured and services performed. Public Law 95-81 amended Public Law 81-656 by authorizing the Bureau to include in charges to customers an amount to be used for the acquisition of capital equipment and working capital.

CAPACITY PLANNING

The Bureau continues to implement its plan to meet future production capacity needs. The primary part of this plan is the construction of a new currency production facility in Fort Worth, Texas. Operation of the Western Production Facility is vital to the Bureau's efforts to meet projected increases in currency note requirements, which are expected to grow at an annual rate of five percent over the next five years. Construction of the facility is

on schedule, with occupancy expected this fall and currency production scheduled to begin in early 1991. Eventually, it will produce about 25 percent of the total annual currency supply.

The other major part of the Bureau's capacity planning is its capital investment program. Through this program, the Bureau acquires the most modern securities printing, processing and support equipment available to enhance productivity and thereby increase the capacity of our existing plant. Within the capital investment program are several initiatives to develop new printing and processing technologies promising the greatest potential for increased productivity. The most notable of these is our program to develop an automated web-fed currency production system to include integrated examining and processing functions.

A prototype web currency press is being procured from a domestic company, with delivery expected this fiscal year. Also, the Bureau is engaged in the development of a prototype automated currency inspection machine, and will attempt to complete the system by acquiring web-fed numbering and packaging equipment. Successful development of web printing technology is expected to significantly increase productivity over current sheet-fed methods. Web printing represents the next generation of currency manufacturing systems and is expected to be in production in the mid-to-late 1990's.

The opening of the Western Production Facility along with the use of web currency production systems will significantly enhance productivity and combine to provide the necessary currency production capacity into the 21st century.

PRODUCTIVITY

From fiscal years 1981 through 1989, productivity increases have averaged seven percent annually and have increased by as much as fourteen percent annually. The dedicated efforts of Bureau employees, aided by a capital equipment modernization program and increased emphasis on technology, have been the primary contributors to productivity increases.

In fiscal years 1990 and 1991, the Bureau anticipates continued productivity increases. Long-range plans involve the acquisition of more productive equipment, such as the web currency printing press and complimentary currency examining and processing equipment. This technology, incorporated into an integrated web currency production system, has the potential for significant productivity improvements.

QUALITY

There is no higher goal at the Bureau than quality. The nature of our products and our mission as a federal agency demands it. Through emphasis on the incoming quality of raw materials, and

controls on the production process itself, we endeavor to assure quality before the fact rather than just inspect for errors after production is complete. We are in the process of broadening the scope of our quality assurance program to include not only product quality, but also the quality of our customer services and of the Bureau's management planning and decision-making processes.

1989 PRODUCTION

In fiscal year 1989, we delivered 6.3 billion currency notes and 32.3 billion postage stamps. The volume of currency delivered represents a five percent increase over fiscal year 1988 deliveries. Postage stamp deliveries were average for a non-rate change year.

No change was made to the currency billing rate, which has remained at $26.00 per thousand currency notes since 1985. Cost containment efforts have enabled the Bureau to adopt a moderate billing rate increase for postage stamp products.

PRODUCTION FORECASTS FOR FY 1990 - 1991

Currency requirements for fiscal years 1990 and 1991 are 7.0 billion and 8.0 billion notes, respectively. Higher than anticipated withdrawal rates for worn currency at Federal Reserve Banks have reduced the system's currency note inventories, and therefore, the Federal Reserve has increased its order by 14% for fiscal year 1991.

Postage stamp requirements for fiscal years 1990 and 1991 are 36.2 billion and 39.4 billion stamps, respectively. The high forecast for fiscal year 1991 is due to an anticipated postal rate increase. The transition from the old rates to new rates requires more stamps initially so that post offices can establish new inventories.

Currency requirements are projected to increase by 25 percent over the next five years, to 10.0 billion notes in fiscal year 1996, while postage stamp deliveries are projected at 38.0 to 40.0 billion annually over the same period.

NEW CURRENCY

Advances in reprographics, including color copiers, have increased the counterfeiting threats to United States currency. In order to counter this growing threat, changes to the currency were approved in 1986. The approved changes to the design are: a denominated security thread, micro-printing around the portrait, and a machine readable covert taggant.

The status of the planned changes is as follows:

Initial Changes:

Security thread - Basic development of threaded security paper is complete. Solicitations for the threaded paper have been released and bid samples from prospective suppliers are currently being evaluated.

Micro-printing - This technique has been tested and is ready for production.

Based on the successful completion of the threaded currency paper solicitation and the negotiation of an acceptable contract, production of new currency with the initial changes could be phased-in with the printing of the 1990 series $100 denomination note later this year. The design changes will be introduced to the higher denominations first, which are subject to the greatest counterfeiting risk.

Future Change:

Taggant - Solicitations for this covert system have been released and proposals have been received. An extensive testing and evaluation period of these proposals is planned with contract award after this analysis has been completed.

CONTINUING ADVANCED COUNTERFEIT DETERRENCE RESEARCH

The Bureau is continuing to investigate and research innovative techniques to enhance the security of United States currency. This effort includes meetings and discussions with private sector organizations as well as sharing information with selected foreign government security printers. These discussions are focused at maintaining knowledge of all state of-the-art technologies in the counterfeit deterrent and security printing fields.

LEGISLATION

In the legislative area, a proposal to provide authority to the Secretary of the Treasury to enter into reciprocal printing agreements with certain foreign governments was introduced to the 101st Congress. Specifically, it would allow for the sharing of research and manufacturing capabilities for currency and other securities. This proposal would provide the United States and foreign countries with alternate security printing sources in the event of an emergency, or where otherwise warranted.

As part of the Bureau's continuing efforts to enhance the efficiency of its operations and reduce costs, the Bureau is seeking the repeal of the law requiring the printing and issuance of United States Notes. Current law requires that the total value of United States Notes be limited to not more than $300,000,000,

less than one-percent of all circulating currency. Most United States Notes reported as in circulation are, in fact, held by collectors because of their numismatic value. These Notes are obsolete as circulating currency. Due to the small quantity of United States Notes which occasionally circulates and eventually requires replacement, the cost of redemption, production, and reissuance of new Notes is prohibitive.

OPERATIONS IMPROVEMENTS

Environment - The Bureau of Engraving and Printing has a well established Environmental Program that is designed to work toward meeting the challenges of attaining compliance with EPA guidelines. In working toward achieving the goals to protect this country's air, water, and land resources, the Bureau has several projects currently in progress.

Volatile Organic Constituents (VOC) emissions from most of the printing presses is a continual concern of the Bureau. The Bureau works routinely with the District of Columbia on this issue. Two of the Bureau's existing postage stamp presses were recently upgraded with new gas fired, forced air ovens and with a thermal incinerator for VOC emission control. The thermal incinerator replaced carbon canister filters, which were a less effective means of control. The modification to these printing presses resulted in the added requirement for collection and control of fugitive VOC emissions and for meeting the Lowest Achievable Emission Rate (LAER) standards for new sources. The Bureau now has a plan in progress to study, design, purchase and install equipment that will meet the LAER requirements.

In regard to the Clean Water Program, the Bureau has an Industrial Wastewater Discharge Permit from the District of Columbia Water and Sewer Utility Administration. The Bureau has established effluent monitoring and hazardous spill prevention and control programs. In response to concern regarding the discharge of certain process effluents to the District's Publicly Owned Treatment Works (POTW), the Bureau has a current project in progress to design, construct and operate a wastewater pretreatment system. A contract for the system's design was awarded in November, 1988. The planned completion date is April 1991, at which time the Bureau will be in compliance with EPA guidelines.

Occupational Safety and Health Program - The Bureau has a comprehensive Occupational Safety and Health Program which establishes responsibilities for the operation of the program and specifies procedures for day-to-day management.

The Bureau administered a series of aggressive Safety, Occupational Health, and Fire Prevention/Protection Programs during fiscal year 1989. These programs were designed to meet the needs of the Bureau's workforce, contribute to operational efficiency, provide protection for the facilities and equipment, and ensure

that the Bureau maintains compliance with applicable codes, standards, and regulations of the Occupational Safety and Health Administration (OSHA), and the National Fire Protection Association (NFPA).

Numerous occupational safety and health programs were continued, including hearing conservation, occupational vision, respiratory protection, medical surveillance, hazard communication, asbestos control, chemical spill response, accident investigation, response to employee reports of unsafe or unhealthful conditions, and workplace inspection. These occupational safety and health programs are designed to effectively deal with various aspects of the employees' health and safety and the employees' relationship to their work environment. In light of increased emphasis by OSHA on ergonomics, the safety engineering program has become increasingly involved in the review and evaluation of existing equipment, proposed equipment purchases and plant layout to identify and eliminate poor ergonomic designs.

MANAGEMENT IMPROVEMENTS

Equal Employment Opportunity (EEO) - The Bureau continues to pursue a vigorous EEO program. The EEO staff is responsible for administering various programs, which include the Federal Women's Program, Hispanic Employment Program, Federal Employees Opportunity Recruitment Program, Black History and Hispanic Heritage Observances and the Handicapped Program. In the organizational structure of the Bureau, the EEO staff is required to report goals, achievements and trends affecting the objectives of these programs to the Office of the Director.

The Bureau continued to move forward in its efforts to enhance equal employment and promotional opportunities throughout all program areas. This undertaking was assisted through continued senior management support for various apprenticeship programs and upward mobility programs. The Competitive Self-Development Training Program, implemented in fiscal year 1987, provides employees with the opportunity to pursue education in a Bureau career field of their choice. Minority employees comprise 87 percent of the program participants. The Bureau also continues to participate in two Office of Personnel Management sponsored programs entitled the "Women's Executive Development Program" and the "Executive Potential Program for Mid-Level Employees". These two programs are designed to provide a structured environment of training and leadership development activities to selectees so that they may compete for future managerial vacancies. Through these various programs the Bureau achieves its affirmative action objectives by preparing talented employees for management positions or to assist them in pursuing a career change. Employee response to these programs continues to be highly favorable.

Strategic Planning - Last year the Bureau began an integrated, participative approach to strategic planning focusing on meeting

customer needs ten to twenty years in the future. This approach enlists the active participation of all management levels and employees in a results-oriented planning environment. As a result of the participative management approach, a more cohesive management process has developed and employee involvement and commitment have improved. Through participative management, Bureau goals are identified, priorities are determined and action plans are developed and incorporated in day-to-day operations.

Labor Management Relations - The Bureau operates within a unique and complex labor management relations environment. The complexity of the labor management relationship is compounded by the existence of 18 bargaining units representing the Bureau workforce. Bureau labor management relations have, nonetheless, continually improved through a policy of open communication and cooperation between management and the labor force. The participative management approach encourages constructive involvement of all employees in Bureau goal setting, problem solving and planning. Through the participative management approach, labor and management work together, as a team, to achieve Bureau goals in a more effective, productive and efficient manner. The participative management approach is another example of the Bureau's commitment to a strong labor management relationship.

Year End Shutdown (YES) - During the Christmas and New Year holiday period, the Bureau continued its practice of shutting down operations. This practice, which is commonplace in private industry, has been used since 1981 and has saved approximately $350,000 annually. These savings result primarily from cost avoidance associated with low productivity and high absenteeism during this holiday period.

RELATIONS WITH THE PUBLIC

The Bureau attracts a great deal of public attention due to the unique nature of its manufactured products. To meet the information needs of currency and postage stamp hobbyists, as well as those of the general public, the Bureau maintains an active public affairs program.

As a major tourist attraction, the Bureau draws more than half a million visitors each year. Visitors observe the actual production of currency as they proceed along a self-guided tour. During the peak tourist season and for special groups, tour guides provide descriptions and explanations of the currency manufacturing process. The cost of maintaining the tour facility is financed by the sale of souvenir items in the Visitor Center and on a mail-order basis. Presidential portraits and vignettes of historic buildings are some of the souvenirs sold. However, the most popular items sold are uncut sheets of one and two-dollar bills. During fiscal year 1989, the Bureau sold over 104,000 uncut currency sheets, with a gross revenue in excess of $1,900,000. The Bureau also participates in a program of exhibits sponsored by

various numismatic and philatelic societies. For most exhibits, the Bureau produces and sells a souvenir card depicting a theme appropriate to the exhibit. The Bureau also displays rare government securities and makes available a team of technical experts and speakers, upon request, to answer questions on currency and stamp production. At selected shows, a 19th century hand press is also demonstrated.

SUMMARY

In summary, the Bureau had a very productive year. We expect to be equally productive in fiscal years 1990 and 1991 as we strive to improve operations.

This concludes my opening statement, Mr. Chairman, and I will be happy to respond to questions you or other members of the Committee may wish to ask.

Thank you very much for your kind attention.

Mr. DALY. My remarks now will highlight the major topics discussed in that statement.

As the nation's securities manufacturing agency, the Bureau is responsible for the design and the production of United States currency, postage stamps, Treasury obligations and other U.S. securities.

Additionally, the Bureau advises and assists federal agencies in the design and production of other government documents which, because of their innate value, require counterfeit deterrent characteristics.

The operations of the Bureau are financed by means of a revolving fund, and accordingly, we are not requesting an appropriation for Fiscal Year 1991.

CAPACITY PLANNING

The Bureau continues to implement its plan to meet future production capacity needs. The primary part of that plan is the construction of a new currency production facility in Fort Worth, Texas. Operation of the Western Production Facility is vital to meeting projected increases in currency note requirements. Construction of the facility is on schedule, with occupancy expected this fall and currency production scheduled there for early 1991. Eventually, it will produce about 25 percent of the total annual currency supply.

The other major part of the Bureau's capacity planning is its capital investment program. Through this program, the Bureau acquires the most modern securities printing, processing and support equipment available to enhance productivity and thereby increase the capacity of our existing plant. Within the capital investment program are several initiatives to develop new printing and processing technologies, promising the greatest potential for increased productivity.

The most notable of these is our proposal to develop an automated web-fed currency production system to include integrated examining and processing functions. Successful development of such a system will significantly increase productivity over current sheet-fed methods. Web printing represents the next generation of currency manufacturing systems and is expected to be in production in the mid-to-late 1990s.

The opening of the Western Production Facility along with the use of web currency production systems will significantly enhance productivity and combine to provide the necessary currency production capacity into the 21st century.

1989 PRODUCTION

In Fiscal Year 1989, the Bureau delivered 6.3 billion Federal Reserve Notes and 32.3 billion postage stamps. The volume of Federal Reserve Notes delivered represents a 5 percent increase over Fiscal Year 1988. Postage stamp deliveries were average for a non-rate change year.

No change was made to the currency billing rate, which has remained at $26.00 per thousand currency notes since 1985. Cost con-

tainment efforts enabled the Bureau to adopt only moderate billing rate increases for postage stamp products.

PRODUCTION FORECASTS FOR FY 1990–1991

Currency requirements for Fiscal Years 1990 and 1991 are 7 billion and 8 billion Federal Reserve Notes, respectively. Higher than anticipated withdrawal rates for worn currency at Federal Reserve Banks have reduced the system's currency note inventories, and therefore, the Federal Reserve has increased its order by 14 percent for Fiscal Year 1991.

Postage stamp requirements for Fiscal Years 1990 and 1991 are 36.2 billion and 39.4 billion stamps, respectively. The high forecast for Fiscal Year 1991 is due to an anticipated postal rate increase.

Currency requirements are projected to increase by 25 percent over the next five years, to 10 billion notes in Fiscal Year 1996, while postage stamp requirements are projected at 38 to 40 billion annually during the same period.

NEW CURRENCY

Advances in reprographics, especially color copiers, have increased the counterfeiting threat to United States currency. In order to counter this threat, changes to the currency note design were approved in 1986. These changes are: a denominated security thread and micro-printing around the portrait for the present, and a machine-readable covert taggant for the future. The micro-printing feature is ready for production, and basic development of the threaded currency paper is complete.

Based on the successful completion of the threaded currency paper solicitation and the negotiation of an acceptable contract, production of new currency with the initial changes, could be phased in later this year with the printing of the 1990 series $100 denomination Federal Reserve Note. The design changes will be introduced to the higher denominations first, which are subject to the greatest counterfeiting risk.

LEGISLATION

In the area of pending legislation, the Bureau has submitted to the 101st Congress a proposal to provide authority to the Secretary of the Treasury to enter into reciprocal printing agreements with certain foreign governments. Specifically, it would allow for the sharing of research and manufacturing capabilities for currency and other securities.

The Bureau also is seeking a repeal of the law requiring the printing and issuance of United States Notes. Current law requires that the total value of United States Notes be limited to not more than $300 million, or less than 1 percent of all circulating currency. Elimination of these notes would not affect currency in circulation.

This concludes my opening remarks, Mr. Chairman, and I will be happy now to respond to any questions you or the Members may have. Thank you so much for your kind attention.

Mr. ROYBAL. I thank you very much, Mr. Daly. As you have heard, we heard two bells which means we have a rollcall on the

floor of the House. We will recess for just a few minutes and when I get back, I would like to discuss with you two important issues.

One is the matter of counterfeiting, and then discuss with you the current problems between the Postal Service and the Bureau of Engraving and Printing. And then we have, of course, other questions we will deal with, but to me those are the two main important questions at this particular time. The committee is now in recess for ten minutes.

[Recess.]

COUNTERFEITING

Mr. ROYBAL. Back on the record. Mr. Daly, I pointed out that we are interested in the problem of counterfeiting.

Mr. DALY. Yes, sir.

Mr. ROYBAL. Do you believe that counterfeiting of U.S. currency is a major problem at this time?

Mr. DALY. Mr. Chairman, it is really an issue that might be better discussed with the Director of the Secret Service, but I will certainly venture my view.

Mr. ROYBAL. I asked him that question before the committee this week some time, and he responded and I would like to know what your opinion is.

Mr. SKEEN. He said ask the Secret Service.

Mr. DALY. In Fiscal Year 1989, there were roughly $14 million worth of counterfeits passed and that is up 20 percent from the previous year. There were $76 million or so seized, just domestically. Foreign seizures were roughly $103 million.

Statistically, when compared to the total currency supply, it is not a major economic problem. But as a growing field of crime, it seems to be on the upswing. There are concerns also that it is becoming very tightly linked with narcotics dealing, and still most counterfeits are manufactured outside of the United States.

Mr. ROYBAL. What about the technological breakthroughs? Are there any that may give us hope that counterfeiting may become more difficult?

Mr. DALY. Since 1979 through about 1985, roughly $33 million were spent on research and development in two ways to deter an emerging form of counterfeiting via the advanced color copiers, primarily. I can show you a sample of what we will do. This is the device I discussed briefly in my statement. This is a security thread which cannot be seen in reflected light, therefore it cannot be copied. We have samples for you to see.

Mr. DALY. If you do that, you can see it running through there.

Mr. ROYBAL. Is this a counterfeit bill or is it a real one?

Mr. DALY. That is a genuine bill, sir.

Mr. SKEEN. We thank you. [Laughter.]

Mr. ALEXANDER. You got two more samples of that? [Laughter.]

Mr. ROYBAL. It is my understanding that an expert can tell whether it is counterfeit or not by feeling the back of this bill. Now, is there not something being now developed that would substitute for the feeling of the individual but have it go through a machine that may in fact feel it for you and then in that manner knock it out as counterfeit?

Mr. DALY. Not that I know of. The surveys show that most counterfeits are indeed first detected by feel, then secondarily visually. As far as I know, of all the research that was done, there is nothing to gauge the feel of the note other than at Federal Reserve Banks.

The high speed cash handling machines often detect the wear of a currency note by light reflectance which is caused by the degree of soil on it.

Mr. ROYBAL. The truth of the matter is that we are having a problem. There has been an increase of 20 percent from 1989 to 1990. That is 20 percent in one year. If that were to keep on increasing, one could conclude that the problem is serious, and I do not know of anything we have not been told that there is anything that would in fact stop it outside of catching the individual and putting them in jail.

So the technological breakthrough is not pending at all then.

Mr. DALY. Well, we feel that the devices that we will incorporate later on during Fiscal Year 1990 will be very effective against copier counterfeiters.

Mr. ROYBAL. Would you say then that there is hope that something can be developed so that increase will not take place in 1991 and 1992?

Mr. DALY. We should be under contract for this—maybe by June. I think it is important, though, to understand that the scope and the velocity of the currency system is immense. Roughly 50 percent of it is outside our borders. Any change takes a long, long time.

RELATIONSHIP WITH THE POSTAL SERVICE

Mr. ROYBAL. Now, I said before the recess I was interested in the problem that seems to be present with regard to the Postal Service and the Bureau of Printing and Engraving. What is the problem? What is being done to solve it?

Mr. DALY. Just a brief background—the Bureau has been manufacturing postage stamps since 1894. The program generally has been a very stable one.

In the late 1970s, the Postal Service embarked rather aggressively in philatelic marketing, which means they were stressing more stamps, different kinds of stamps and seeking perfection.

It was during that decade that I think some of the difficulties arose between their evolving and rapidly changing to more exacting standards and the Bureau's production system's ability to respond.

As you know, in 1988, the Postmaster General made a proposal to, at the time, Secretary Baker, that postage stamp manufacturing should be privatized by 1993. He sought the Secretary's endorsement for that and Treasury support in the form of identifying a manufacturing facility and transferring Bureau production systems to it.

Secretary Baker responded that the Treasury would support a review of the cost effectiveness of Bureau operations prior to any consideration of a program to fully privatize. The Bureau currently manufactures about 85 percent of all stamps. The other 15 percent are contracted out.

In 1989, Chairman Ford asked the GAO to look into this Postal Service proposal and to report on where it stood and what the factors were underlying it. Their report, which I believe you have seen, was issued in December.

Fundamentally, it said things were bad but they were getting better and it made four recommendations. All four have been agreed to and are in different phases now of implementation. The primary one is the negotiation of a detailed operating agreement between the Bureau and the Postal Service, and we actually began negotiation of that yesterday.

Mr. ROYBAL. Is the printing equipment that you are using now state of the art?

Mr. DALY. Yes, sir.

Mr. ROYBAL. The best you can possibly get?

Mr. DALY. Yes, sir.

Mr. ROYBAL. Is it being used to the greatest efficiency and capability?

Mr. DALY. It is probably being used beyond that. Postal Service accounts for roughly 30 percent of our annual sales and the Postal program consumes roughly 40 percent of our overtime.

Mr. ROYBAL. Thank you. Mr. Skeen?

WESTERN PRODUCTION FACILITY

Mr. SKEEN. Thank you, Mr. Chairman. It is good to have you here today. Would you give me an update on your Fort Worth expansion facility and where you are on FTEs and just a general status outline.

Mr. DALY. Yes, sir.

Mr. SKEEN. If you would please, sir.

Mr. DALY. The construction was begun in 1988 and we are expecting occupancy there this fall and we will begin production there in early 1991.

The first year, we anticipate doing roughly 800 million currency notes there. Subsequently, based on a two-shift, five-day week, roughly 1 billion notes a year.

Mr. SKEEN. It is an outstanding looking edifice. It would do credit to Prince George's County, would not it?

Mr. ROYBAL. Sure would.

RECIPROCAL PRINTING AGREEMENTS

Mr. SKEEN. We discussed the possibility of currency and postage printing for foreign countries I think in our last meeting. What has happened on that particular program? Has that come to fruition or not?

Mr. DALY. No, sir. There is a proposal that would authorize the Secretary to enter into such reciprocal agreements, but currently we do not have that authority.

Mr. SKEEN. You never did get any bids.

Mr. DALY. No.

Mr. SKEEN. But you were doing some bid work or I thought you were investigating some of the possibilities of printing foreign currencies and foreign postage at one time.

Mr. DALY. No, sir.

Mr. SKEEN. None.

Mr. DALY. No.

Mr. SKEEN. Is that a bad idea?

Mr. DALY. Our capacity is very taxed. So, therefore, it would not make sense for business reasons.

Mr. SKEEN. You are doing all you can do with what you have now.

Mr. DALY. Yes. But it would be of value in an emergency as a back-up.

Mr. SKEEN. But 40 percent of what you do now is for Postal Service. Is that what you just said a while ago?

Mr. DALY. Seventy percent currency, thirty percent postage.

Mr. SKEEN. Seventy-thirty break.

Mr. DALY. Right.

Mr. SKEEN. I see. I think it is a very innovative and unique situation that the Bureau of Printing and Engraving is in, particularly when you come in with no appropriations.

Mr. DALY. Yes, sir.

Mr. SKEEN. We particularly like that. We commend you on your work and what you do. I know you have got state of the art equipment and you use it to its very best advantage and so I want to commend you on all of that. Thank you, Mr. Chairman. Thank you, Mr. Daly.

Mr. ROYBAL. Mr. Alexander?

SOYBEAN INK

Mr. ALEXANDER. Thank you, Mr. Chairman. Mr. Daly, welcome, gentlemen. It is a pleasure to see you again. I have a matter to discuss with you of the highest national priority. Of preeminent national concern—the topic of soybean ink.

Mr. DALY. Yes, sir. I know about it.

Mr. ALEXANDER. And we talked a minute ago about it. A good product. Absolutely the best product. We talked last fall, I believe, about that subject and discussed it generally. We were going to revisit it in the winter or spring, and I want to just ask you today if the Bureau is willing to work with trade groups like the American Soybean Association or American Newspaper Publishers Association to research the possibility of using soybean ink for the purpose of printing U.S. currency.

Mr. DALY. As we discussed last fall, yes, I believe the statistics were then that about 5 percent of our inks could use this technology. So we would be certainly happy to respond.

Mr. ALEXANDER. We can work that out at a time that is mutually convenient and talk about it.

Mr. DALY. Certainly.

Mr. ALEXANDER. Mr. Chairman, I have no complaints.

Mr. SKEEN. Would the gentleman yield?

Mr. ALEXANDER. Sure.

Mr. SKEEN. What is the base source now? What kind of ink is in use?

Mr. DALY. Currency inks are purchased from a firm which is a fundamentally a Swiss firm but has an American corporate arm.

Mr. SKEEN. I am sure every company in the world has got an American corporate arm. But by and large it is an imported product.

Mr. DALY. It is manufactured in Springfield, Virginia.

Mr. SKEEN. Under license out of a Swiss outfit.

Mr. DALY. That is right.

Mr. SKEEN. I am with you all the way.

Mr. ALEXANDER. Actually, it is a good product.

Mr. SKEEN. I am sure that it is.

Mr. ALEXANDER. A good bit of color that you see now in newspapers like USA Today and others is soybean ink. And I just stumbled across the idea last fall. It was not something that I woke up in the middle of the night having a vision about, but it has some merit and we certainly want to do what we can to explore the possibility of buying American products, especially if they are grown on a farm out in Arkansas.

Mr. SKEEN. That brings us again to visions in the night.

Mr. ALEXANDER. I cannot think of anything that is of more preeminent concern than buying something grown on an Arkansas farm. Thank you very much, Mr. Daly.You are doing a good job and we appreciate working with you.

Mr. DALY. Thank you, sir.

Mr. ROYBAL. Thank you, Mr. Alexander. Mr. Daly, there are some more questions we would like to submit for the record, and would appreciate your answering them as soon as possible. We would like to thank you and your colleagues for your testimony.

Mr. DALY. Thank you, Mr. Chairman.

Mr. ALEXANDER. Mr. Chairman?

Mr. ROYBAL. Yes, sir.

Mr. ALEXANDER. I thought I had something else to ask Mr. Daly, but I am advised that it is slightly premature, so we will catch him next time. Thank you.

Mr. ROYBAL. Thank you very much.

[Questions and answers for the record and the justifications follow:]

COUNTERFEITING OF U.S. CURRENCY

Roybal: Do you believe that the counterfeiting of U.S. currency is a major problem at this time? What is the current status of the anti-counterfeiting effort as far as printing is concerned? Do you work regularly with the Secret Service in trying to improve printing techniques?

Daly: At this time counterfeiting of U.S. currency is not a major economic problem. According to Secret Service statistics, it seized counterfeit notes with a total face value of $89.1 million last year. The total amount seized represents less than four hundreths of one percent of the $235 billion estimated to be in circulation. However, the Bureau, Federal Reserve and the Secret Service agree that expected advances in color reprographic technology is a serious future counterfeiting threat. The design changes approved for the currency note will provide the needed protection against this threat.

Three new security design features have been approved for incorporation into the currency note. They are:

1. micro-printing around the portrait;
2. security thread; and
3. covert taggant system.

The micro-printing feature is ready for production and basic development of the security thread is complete. Based on the negotiation of an acceptable contract for threaded currency paper, production of new currency could be phased-in with the printing of the 1990 series $100 denomination note later this year.

Proposals for the covert taggant system have been received. An extensive testing and evaluation period will be required before contract award can occur.

The Bureau consults regularly with the Secret Service. The Secret Service worked closely with the Bureau during its assessment of design features best suited to neutralize the counterfeiting threat expected from color copying technology. Secret Service input was carefully considered throughout the development of the selected currency design features. The Bureau continues to rely on the Secret Service to keep it informed about potential counterfeiting threats to currency and options available to meet perceived threats.

Roybal: Are there any technological break-throughs pending that either threaten our currency or make counterfeiting more difficult?

Daly: The most significant future counterfeiting threat to U.S. currency will be color reprographic technology. The advanced color copiers, expected to become widely available later this decade, will create the opportunity for impulse counterfeiting by persons having access to the equipment. This is a serious counterfeiting threat unlike any we have faced before. The approved design features for new currency were developed specifically to protect currency against this threat.

RELATIONSHIP WITH THE POSTAL SERVICE

Roybal: Please summarize for the Committee the background surrounding the current problem between the Postal Service and the Bureau of Engraving and Printing regarding the printing of postage stamps.

Daly: From 1985 until late 1988, the working relationship between the Bureau and the Postal Service grew strained as a result of the agencies' inability to resolve disagreements over stamp quality issues and related costs. In June 1988, the Postmaster General proposed to the Secretary of the Treasury that by 1993 postage stamp production be privatized, and solicited the Treasury to locate a plant for the USPS and give Bureau stamp production systems to it. Instead, the Secretary agreed to review the cost-effectiveness of Bureau stamp production operations by updating the 1982 study conducted by Arthur Young and Company. In December 1989, the General Accounting Office issued a report to Chairman Ford of the House Committee on Post Office and Civil Service on the status of Postal Service efforts to obtain postage stamps from the private sector. The Bureau has begun negotiations with the Postal Service to develop a specific written agreement between the two parties as recommended by the GAO report.

PRINTING EQUIPMENT

Roybal: Is your printing equipment "state of the art"?

Daly: Our printing and processing equipment is the state-of-the-art. The Bureau has a program in place to regularly upgrade its production facility to take advantage of improved productivity, efficiency and quality output offered by new technology.

FUNDING AND PRODUCTION

Roybal: Will you provide some information for the record on your funding and production.

Daly: The Bureau's fiscal year 1991 budget is based on the estimated cost to produce 8.0 billion currency notes and 39.4 billion postage stamps requested by the Federal Reserve and United States Postal Service, respectively. Accordingly, our fiscal year 1991 spending plans are based on estimated labor, material, and other costs that will be incurred to meet these production levels. Amounts are also included to fund equipment acquisitions and working capital needs. All costs are converted to a unit price for each product, which is the basis for charges to our customers.

BEP POLICE FORCE

Hoyer: It is my understanding that there are currently 37 vacancies out of 114 positions in the Bureau's Police Force. Is this vacancy rate accurate?

Daly: There currently are 34 vacancies within the BEP Police Force. It is authorized 114 positions of which 80 are filled.

Hoyer: Since January 1989, BEP hired 10, but since January 1990, you lost 14. Are you having a problem with recruitment and retention in this area?

Daly: The actual figures are slightly different than you have suggested. Since January 1989, BEP has hired eight police officers and has lost nine due to resignations, deaths and retirements. Also, two police officers have been transferred from BEP's main facility to the new Fort Worth facility.

Yes, we have both a recruitment and a retention problem. They are caused by current pay limitations for entry level personnel and the type of mission we have at the BEP. Younger officers, after receiving extensive training, often develop a desire to transfer to a more active law enforcement environment, such as one might find in a municipal, state or federal law enforcement agency. We are actively continuing to recruit through newspaper advertising, job fairs, and the Office of Personnel Management hiring process.

Hoyer: It is my understanding that legislation has been approved by BEP and Treasury to increase the rates of pay to the GS-7 level for BEP and the Mint police. Do you support this initiative?

Daly: Yes, we endorse all efforts to secure the passage of legislation to increase the pay rates for the BEP police and we solicit your continued support.

Hoyer: Finally, the new Holocaust Museum will be opening soon and it is my understanding that BEP police will be the first response team. Is this true and will you have adequate staff to handle this additional mission?

Daly: The BEP Police Force does not have jurisdiction for responding to emergencies at the Holocaust Museum. The jurisdiction of the BEP Police Force is limited to the perimeter of the Bureau's property. We are mindful of our close proximity to the Museum and of the possibility that emergency situations at that facility may impact negatively on the BEP. We meet regularly with appropriate Museum officials to discuss these mutual concerns.

WESTERN FACILITY

Hoyer: What is the status of opening the Western Facility? Have there been problems in construction? Have any cost increases occurred on this project?

Daly: Construction of the Western Currency Facility is progressing well towards completion. The Bureau expects to take occupancy of the facility in the fall and plans to begin production early in calendar year 1991. None of the problems which have arisen in the construction of the facility have affected its scheduled opening.

During 1986 and 1987, early in the planning of the western facility, an estimate of its cost, made only on the basis of standard regional construction cost tables was about $100 million. The actual costs for the various systems and elements of the project were finalized only after contracts were awarded.

Presently, it is estimated that about $110 million will be expended. While the conceptual design for the facility has remained virtually unchanged from its inception, specific details have evolved considerably during that period as requirements were finalized and contracts awarded.

Hoyer: How have transfers been handled to the facility? Will the police and employee pay remain the same as Washington?

Daly: Vacancies at the facility have been announced in Washington, DC; interested applicants were selected and

dates, travel, and transportation are currently being established. The Bureau has been able to select most of the craftsman to be transferred utilising this method. Pay setting has been established and employees in Fort Worth will receive the same pay rates as employees in Washington. There are exceptions to this rule for police officers and clerical personnel, whose wages are based on special locality rates. Office of Personnel Management regulations require that pay for clerical and police personnel be set in accordance with the prevailing wage rates in the Fort Worth area.

GRAVURE PRINTING

Hoyer: It is my understanding that no gravure printing is planned for FY 90 or FY 91. It could be critical in balancing production capacity, stabilizing workforce and skills, and reducing the need for the Post Office to contract out work.

Daly: The Bureau uses gravure printing for a significant portion of its total postage stamp printing program. The FY 1990 postage stamp production program calls for approximately 15.3 billion stamps, or 39% of the projected total order, to be printed by the gravure process. The 1991 postage stamp production program has not been finalized at this time; however, initial projections indicate that approximately 8 to 9 billion stamps will be printed by rotogravure method, or 28% of the program. The Bureau has excess capacity for the printing of stamps by the gravure method.

Hoyer: Is gravure printing, as studies show, more advanced, timely and economical? The "Little Study" said gravure was 2 to 5 times faster and cheaper with superior print quality.

Daly: Gravure printing is an excellent method for printing multicolored postage stamps. It is quite fast, as compared to other methods of printing stamps. It is very good at long sustained production runs, and as such, can be employed very economically.

Hoyer: Why has BEP not made major strides into this printing area? Wouldn't investments in this area improve the efficiency and responsiveness of BEP to customers, including the Postal Service?

Daly: The Bureau has made great strides in the area of gravure printing. By way of example, the use of water-based inks to replace more expensive, and polluting, solvent-based inks for the production of stamps, was

done by the Bureau. The Bureau also employs the latest technology in electronic register control and production monitoring systems on the rotogravure printing equipment. At present, the Bureau's capacity for printing stamps by gravure exceeds the orders for such stamps by the Postal Service.

Hoyer: Could BEP make an experimental effort with gravure printing in FY 1991?

Daly: Since the Bureau is currently using gravure printing on a regular basis, experimentation with new methods and/or equipment could be beneficial.

NEW COUNTERFEIT DETERRENT DESIGN FEATURES FOR CURRENCY

Hoyer: What and when can we expect to see to improve the security of U.S. notes? The Secret Service has documented that counterfeiting is on the increase, most notably due to the increasing ease with which money can be counterfeited.

Daly: New design features may be added to the currency note as early as this summer. The new design features include microprinting around the portrait and a security thread. The microprinting will contain the words "United States of America" which will be printed repeatedly around the portrait on the face of the note. The security thread consists of a clear polyester thread imprinted with the denomination vertically imbedded in currency paper. Both features were designed specifically to thwart the counterfeiting threat, expected later this decade, from advanced color copier equipment. We anticipate beginning production of Federal Reserve Notes containing these features later in 1990.

Hoyer: When will security threads be introduced? Microscopic type? Watermarks? Other measures?

Daly: The security thread could be introduced this summer pending successful completion of the current threaded paper solicitation and subsequent negotiation of an acceptable contract. The microprinting is ready for production and will be introduced concurrently with the security thread. The design changes will be phased-in with the higher denomination notes first which are subject to the greatest counterfeiting risk. The Bureau may pursue the development of other deterrent devices if future events warrant.

Hoyer: Who decides what and when? For years, action has been promised, but none taken, what is the hold up?

Daly: The Secretary of the Treasury has the responsibility for form, tenor and design of U.S. currency, and approved in 1986 the changes I outlined earlier.

Production of new currency, with the approved design changes, was originally scheduled for 1987. However, it was delayed due to vendors' inability to produce currency paper with the security thread at high production levels. The initial development of the threaded paper proved its technical feasibility and that high quality could be attained on limited production runs. However, during actual high volume production runs, it was discovered that acceptable quality could not be maintained by the supplier. Therefore, the paper could not be processed through the Bureau with any certainty that the finished currency note would meet the high standards for U.S. currency. Additional time was required for potential suppliers of paper with the embedded thread to complete development and pass the stringent quality requirements.

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING FUND
BUREAU OF ENGRAVING AND PRINTING

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1990
(Dollars in thousands)

	Permanent Positions	FTE's	Amount
FY 1989	2,208	2,182	----
Authorized Level for FY 1990	2,305	2,346	----
Estimates, FY 1991	2,380	2,421	----

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FOR FISCAL YEAR 1991

	Appropriation FY 1989		Authorized Level FY 1990		Budget Estimate FY 1991		Increase or Decrease (-) For FY 1991 Total Changes		Program Change		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Engraving and Printing.....1/	2,182	---	2,346	---	2,421	---	75	---	75	---	---	---
2. Space utilized by other agencies	---	---	---	---	---	---	---	---	---	---	---	---
3. Other direct charges for miscellaneous services.....	---	---	---	---	---	---	---	---	---	---	---	---
Total Appropriation, Authorized Level, and budget estimate.....	2,182	---	2,346	---	2,421	---	75	---	75	---	---	---
Permanent Positions.....	2,208		2,305		2,380	---	75	---	75	---	---	---

1/ Staffing levels (FTE positions) shown above are for information purposes only. The Bureau is not requesting appropriated funds.

January 29, 1989

27-962 O—90—15

Bureau of Engraving and Printing Fund

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

The Bureau is responsible for manufacturing currency, postage stamps, various public debt instruments, and other security documents issued by the Government.

The operations of the Bureau are financed by means of an industrial revolving fund established by Public Law 81-656, approved August 4, 1950. This law requires the Bureau to be reimbursed by customer agencies for all costs of manufacturing products and services performed. Public Law 95-81, passed July 31, 1977, authorizes the Bureau to include in its price for products manufactured and delivered an amount for the procurement of major capital equipment and working capital needs.

Total income from operations is estimated to be $267 million in FY 1990 and $295 million in FY 1991 as compared with $237 million in FY 1989.

A summary of the changes in selected workload data by activity follows:

1. Engraving and Printing

   a. Currency. For FY 1990 and 1991, projections for currency deliveries are 7.0 and 8.0 billion notes, respectively. The Bureau delivered 6.3 billion notes in FY 1989.

   b. Postage Stamps. The projected requirements for FY 1990 and FY 1991 are 36.2 and 39.4 billion stamps, respectively. In FY 1989, the Bureau delivered 32.3 billion stamps.

   c. Revenue Stamps. The projected requirements for FY 1990 and FY 1991 are 69.8 and 73.4 million stamps, respectively. In FY 1989, the Bureau delivered 66.4 million stamps.

   d. Commissions, Certificates, Etc. This program is comprised primarily of Presidential and Department of Defense commissions and certificates, White House invitations, and identification cards for various Government agencies.

2. Space Utilized By Other Agencies, Etc. Customer agencies served are charged for services rendered.

Bureau of Engraving and Printing

SELECTED WORKLOAD DATA
(In Thousands)

Activity and Principal Workload Factors	1989 Actual	1990 Program in 1990 Budget	1990 Program in 1991 Budget	1991 Estimate	Increase/ Decrease Over 1990
1. Engraving and Printing - Units Delivered:					
a. Currency	6,330,636	6,600,000	7,001,600	8,000,000	14.3%
b. Postage Stamps	32,317,813	36,000,000	36,182,666	39,392,016	8.9%
c. Revenue Stamps	66,418	74,200	69,800	73,355	5.1%
d. Securities, commissions, certificates, etc.	7,993	4,400	8,250	8,600	4.2%
2. Space utilized by other agencies, and other miscellaneous services (Cost)	$ 4,511	$ 4,320	$ 4,558	$ 4,626	1.5%

440

Bureau of Engraving and Printing Fund

SUMMARY OF EMPLOYMENT
(Number of FTE Positions)

	Actual 1989	Estimated 1990	Estimated 1991	Increase/Decrease (-) for 1991 Total	Program	Other
Manufacturing	1,180	1,277	1,308	31	31	---
Manufacturing Support	705	758	776	18	18	---
Administrative	188	194	197	3	3	---
Subtotal	2,073	2,229	2,281	52	52	---
Temporary FTE Positions	109	117	140	23	23	---
Total FTE Positions	2,182	2,346	2,421	75	75	---

BUREAU OF ENGRAVING AND PRINTING

GENERAL STATEMENT

The Bureau of Engraving and Printing, the world's largest securities manufacturing establishment, operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a)(4) to engrave and print currency and security documents, and additional authority derived from past appropriations made to the Bureau for work to be undertaken. The operations of the Bureau are currently financed by means of a revolving fund established in accordance with the provisions of Public Law 81-656, August 4, 1950 (31 U.S.C. 5142). This fund is reimbursed by other Government agencies for the direct and indirect costs of the Bureau, including its administrative expenses incidental to performing the work or services requisitioned.

Public Law 95-81, July 31, 1977 (31 U.S.C. 5142)(c)(3) increased the Bureau's fund, and additionally authorized the establishment of reimbursement prices from customer agencies at a level which provides funding for the acquisition of capital equipment and future working capital. This should preclude future requests for appropriations.

The Bureau designs, manufactures, and supplies most of the major evidences of a financial character issued by the United States. It is the sole source of United States currency, various public debt instruments, and the major source of postage stamps and other security documents issued by the Government. The Bureau executes certain printings such as revenue stamps for various territories administered by the United States. It conducts extensive research and development programs for improving the quality of products, reducing manufacturing costs, and for strengthening deterrents to the counterfeiting of Government securities. It manufactures inks and plates used for its products; purchases materials, supplies and equipment; provides maintenance services for its buildings, plant machinery and equipment; produces, stores and delivers its products in accordance with requirements of customer agencies. The Bureau is responsible for the accountability and destruction of its security waste products.

The budget estimates are determined primarily by two factors, (1) production needed to meet the estimated requirements of customer agencies, and (2) the unit cost of manufacturing each type of item produced. The unit cost of production of each item manufactured is developed through a detailed system of cost accounting, and adjusted to reflect all known factors which will affect the cost of production during the current and budget years.

Such factors include pay rate and material price increases expected during the current year, as well as estimated savings resulting from improvements in production procedures.

Summary of Work Programs

In fiscal year 1989, the Bureau delivered 6.3 billion currency notes and 32.4 billion postage and revenue stamps. For fiscal years 1990 and 1991, the projections for currency deliveries are 7.0 and 8.0 billion notes, respectively. The projected postage stamp deliveries are 36.2 and 39.4 billion stamps for fiscal years 1990 and 1991, respectively.

Total income from operations is estimated to be $267 million in 1990 and $295 million in 1991, as compared with $237 million in 1989. Average postage stamp billing rates increased 3.6 percent as a result of minor increases in production costs. No change was made to the currency billing rate, which remains $26.00 per thousand currency notes.

The Bureau's successful cost containment efforts result from its continuing systematic incorporation of new technologies and related equipment. Capital equipment requirements will remain high to sustain continuing automation efforts at the main facility and to equip the new western facility with state-of-the-art production and processing equipment and support systems. Currently, currency printing and processing equipment is being acquired for operation in our western facility. Also, major developmental projects are proceeding on schedule, including the development of technologies associated with web currency production. The successful development of this and other advanced concepts could result in significant long-range savings.

New Western Production Facility

The new Western Production Facility is located in Fort Worth, Texas. Development of the facility is proceeding on schedule and currency production is scheduled to begin at the new facility in fiscal year 1991. Initially, the facility is expected to produce about one-third of its planned full-scale production. Full production is expected during the mid-1990s. The western facility will expand the Bureau's currency production capacity and will produce the additional currency needed to meet a 25% increase in currency demand, projected by the Federal Reserve, over the next five years. The western facility will greatly enhance the Bureau's emergency preparedness by providing a secondary manufacturing site, and will provide significant productivity and cost benefits.

New Currency

Advances in reprographics, including color copiers, have increased the threat of counterfeiting of United States currency. In order to counter this growing threat, a change to the current design was approved in 1986 for implementation in 1987. The approved changes to the design included: a denominated security thread, micro-printing around the portrait, and a machine readable covert taggant. Implementation of these changes was delayed in 1987 due to the paper suppliers' inability to meet the high quality standards for U.S. currency at the volume and production rates required.

The status of the planned changes is as follows:

Initial Changes:

Micro-printing - This technique has been tested and will be incorporated into the currency note design in conjunction with the implementation of the security thread.

Security thread - Solicitations for the threaded security paper have been released and bid samples are currently being evaluated.

Based on the successful completion of the current threaded currency paper solicitation and the negotiation of an acceptable contract, production of new currency, incorporating the thread and micro-printing features, could be phased-in this summer with the printing of the 1990 series $100 denomination note. The design changes will be introduced to the higher denominations first which are subject to the greatest counterfeiting risk.

Future Change:

Taggant - Solicitations for this covert system have been issued and proposals have been received. An extensive testing and evaluation period of nine to twelve months is needed for these proposals, with contract award expected in 1991 after this analysis has been completed.

Productivity

The Bureau continually explores new technologies and work methods which will improve productivity. From fiscal years 1981 through 1989, productivity increases have averaged seven percent annually and individual years have increased by as much as fourteen percent. Although not directly comparable, the average annual productivity increase for the non-farm business sector of the manufacturing industry has been 1.6% for the same period, as reported by the Bureau of Labor Statistics. The dedicated efforts of Bureau employees, aided by an agressive capital equipment modernization program and increased emphasis on technology, have been the primary contributors to productivity increases.

In fiscal years 1990 and 1991, the Bureau anticipates continued productivity achievement as a result of technology improvement.

Technological Improvements

The Bureau continues to pursue an extensive technological improvement effort geared to improving productivity and reducing the cost of operations. The expected improvements reflect the use of currently available technology and technology that will be developed in the future, as identified below:

Web Currency Production Pres - The Bureau has contracted for procurement of a web currency press that will print simultaneously both faces and backs and deliver the product in sheet form. An award was made to a domestic company. Delivery is expected in FY 1990; following testing and evaluation, initial production is anticipated to begin in FY 1991. Web currency printing represents the next generation of currency printing technology.

Multicolor Web Intaglio Press (F Press) - A contract to acquire this press was awarded in 1987. This press will increase the Bureau's intaglio stamp production capacity and reduce the load on existing intaglio presses which will both extend their useful lives and enhance productivity. The inclusion of offset capability will expand the Bureau's ability to handle a wider range of stamp designs.

Future Technological Improvements

Web Currency Production Process - The Bureau is engaged in the development of a prototype automated currency inspection machine which may be integrated into the web currency press or, alternatively, operate as an independent system component. Also, the Bureau will investigate development of web-fed numbering and packaging equipment needed to complete the production system.

Success with these two efforts and the Web Currency Press that is currently being acquired is expected to lead to an Integrated Currency Production System incorporating process controls which will minimize spoilage. Current plans are to initiate acquisition of the first integrated system in FY 1995.

Counterfeit Deterrence Technology

The Bureau continues to maintain an active Advanced Counterfeiting Deterrent Program which includes in-house and contractual research and development, and continuous reviews of state-of-the-art technologies. We are researching more advanced currency design features which may provide additional protection against counterfeiting beyond that to be provided by new currency. Research will continue in this very important area in an effort to develop increasingly

sophisticated counterfeit deterrents necessary in response to emerging threats to the integrity of our nation's currency. Additionally, the Bureau is pursuing development of a covert detection system to be used at Federal Reserve Banks.

The Bureau's major goal is to maintain the very high level of public confidence in U.S. currency by incorporating features in notes to combat ever-increasing counterfeit threats.

Environment

The Bureau of Engraving and Printing has a well-established Environmental Program that is designed to work toward meeting the challenges of attaining compliance with EPA guidelines. In working toward achieving the goals to protect air, water, and land resources, the Bureau has several projects currently in progress.

In regard to the clean water program, the Bureau received an Industrial Wastewater Discharge Permit from the District of Columbia's Water and Sewer Utility Administration. The Bureau has established an effluent monitoring program and has submitted a hazardous spill prevention and control plan. In response to concern regarding the discharge of certain process effluents to the District's Publicly Owned Treatment Works (POTW), the Bureau has a current project in progress to design, construct and operate a wastewater pretreatment system. A contract for the design was awarded in November 1988. The planned completion date is April 1991, at which time the Bureau will be in compliance with EPA guidelines.

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING FUND
BUREAU OF ENGRAVING AND PRINTING

Summary of Bureau Activities for Fiscal Years 1989, 1990, 1991

	Number of Units Delivered (In Millions)			Income (In Thousands)		
	Actual	Estimated		Actual	Estimated	
	1989	1990	1991	1989	1990	1991
Currency	6,331	7,002	8,000	$164,597	$182,000	$208,000
Postage Stamps	32,318	36,182	39,392	64,680	76,220	77,745
Revenue Stamps	66	70	73	180	182	184
Securities, commissions, certificates, etc.	8	8	9	486	1,170	1,090
Uncut Currency	...	...	...	2,918	3,090	3,100
Total Bureau Products	38,723	43,262	47,474	$232,861	$262,662	$290,119
Space utilized by other agency and other miscellaneous services				$ 4,511	$ 4,558	$ 4,626
Total income from operations				$237,372	$267,220	$294,745
Total cost of operations				$216,174	$239,104	$268,268
Revenue in excess of expenditures				$ 21,198	$ 28,116	$ 26,477

January 29, 1990

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DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING FUND
BUREAU OF ENGRAVING AND PRINTING

Statement Showing Comparison of Units Delivered, Cost, and Cost per Thousand Units for Fiscal Years 1989, 1990, and 1991

Description	FY 1989 Units Delivered	FY 1989 Actual Cost	FY 1989 Cost Per "M" Units	FY 1990 Units Delivered	FY 1990 Estimated Cost	FY 1990 Cost Per "M" Units	FY 1991 Units Delivered	FY 1991 Estimated Cost	FY 1991 Cost Per "M" Units
Currency:	6,330,636	$143,063,558	22.5986	7,001,600	$158,307,576	22.6102	8,000,000	$181,040,800	22.6301
United States Postage Stamps:									
Sheet	1,950,012	$ 4,009,188	2.0559	2,200,000	$ 4,548,060	$ 2.0673	2,300,000	$ 4,768,360	$ 2.0732
Book	7,618,446	19,297,856	2.5330	8,300,000	21,306,930	2.5671	8,500,000	21,930,850	2.5801
Coil	17,708,172	29,114,407	1.6441	20,000,000	33,804,000	1.6502	22,000,000	36,770,800	1.6714
Commemorative	1,468,681	6,076,227	4.1372	1,500,000	6,235,800	4.1572	1,550,000	6,484,270	4.1834
Special Issue	3,572,502	5,702,703	1.5963	4,182,666	6,705,232	1.6031	5,042,016	8,182,687	1.6229
Total Postage Stamps	32,317,813	$ 64,200,381	....	36,182,666	$ 71,800,022	....	39,392,016	$ 78,136,967	....
Revenue Stamps 1/	66,418	$ 544,358	....	69,800	$ 551,575	....	73,355	$ 564,641	....
Securities, Commissions, Certificates, etc. 1/	7,993	1,838,542	....	8,250	1,866,889	....	8,600	1,870,411	....
Uncut Currency etc. 1/	....	2,016,960	....	....	2,019,938	....	....	2,029,181	....
Total Products 1/	38,722,860	$211,663,799	....	43,262,316	$234,546,000	....	47,473,971	$263,642,000	....

1/ Since the products included in these categories are produced in varying amounts and at different unit cost rates, the showing of composite rates would not be meaningful.

January 29, 1990

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DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING FUND
BUREAU OF ENGRAVING AND PRINTING

Statement Showing Comparison of Units Delivered, Cost, and Cost per Thousand Units for Fiscal Years 1989, 1990, and 1991

Description	FY 1989 Units Delivered	FY 1989 Actual Cost	FY 1989 Cost Per "M" Units	FY 1990 Units Delivered	FY 1990 Estimated Cost	FY 1990 Cost Per "M" Units	FY 1991 Units Delivered	FY 1991 Estimated Cost	FY 1991 Cost Per "M" Units
Total Products (brought foward)	38,722,860	$211,663,799	....	43,262,316	$234,546,000	....	47,473,971	$263,642,000	....
Services for Space Utilized by another agency	....	$ 3,988,558	....	....	$ 4,030,000	....	....	$ 4,090,000	....
Other direct charges for Miscellaneous services	....	522,331	....	....	528,000	....	....	536,000	....
Total Service	....	$ 4,510,889	....	....	$ 4,558,000	....	....	$ 4,626,000	....
Total Products and Services	38,722,860	$216,174,688	....	43,262,316	$239,104,000	....	47,473,971	$268,268,000	....

January 29, 1990

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DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
BUREAU OF ENGRAVING AND PRINTING FUND

Financial Condition (in thousands of dollars)

	1988 actual	1989 actual	1990 estimate	1991 estimate
Assets:				
Fund balance with Treasury	$195,442	$198,545	200,845	$214,000
Accounts receivable (net)	25,929	21,912	23,427	22,339
Inventories:	45,426	40,562	43,180	44,720
Fixed assets (net)	106,005	103,532	128,318	141,224
Other assets (net)	13,832	43,124	40,442	40,464
Total assets	386,634	407,675	436,212	462,747
Liabilities:				
Accounts Payable	10,859	10,804	10,713	10,920
Accrued Liabilities:				
Payroll	5,853	6,614	6,752	6,301
Leave	5,351	5,349	5,362	5,218
Constructive receipts	360	788	618	784
Other	4,766	5,212	5,809	5,870
Trust and deposit	398	384	375	388
Advances from other Government agencies	1,191	1,027	970	1,176
Total liabilities	28,778	30,178	30,599	30,657
Government equity:				
Unexpended budget authority:				
Unobligated balance	101,946	117,500	104,457	104,185
Undelivered orders	133,196	114,379	128,373	127,845
Unfinanced budget authority:				
Unfilled customer orders	(42,549)	(41,600)	(47,600)	(46,800)
Invested capital and earnings	165,263	187,218	220,383	246,860
Total Government equity	$357,856	$377,497	$405,613	$432,090

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
BUREAU OF ENGRAVING AND PRINTING FUND

Financial Condition (in thousands of dollars)

	1988 actual	1989 actual	1990 estimate	1991 estimate
Analysis of Changes in Government Equity				
Paid in capital:				
Opening balance	$ 32,310	$ 32,310	$ 32,310	$ 32,310
Transactions	---	---	---	---
Closing balance	$ 32,310	$ 32,310	$ 32,310	$ 32,310
Retained income:				
Opening balance	296,488	325,546	345,187	373,303
Transactions:				
Net operating income	33,168	21,198	28,116	26,477
Net non-operating loss (-):				
Loss from disposal of equipment	---	---	---	---
Prior period adjustment	(4,110)	(1,557)	---	---
Closing Balance	325,546	345,187	373,303	399,780
Total Balance equity (end of year)	$357,856	$377,497	$405,613	$432,090

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
BUREAU OF ENGRAVING AND PRINTING FUND

Revenue and Expense (in thousands of dollars)

	1989 actual	1990 estimate	1991 estimate
Revenue from Sales:			
Currency	$164,597	$182,000	$208,000
Postage Stamps	64,680	76,220	77,745
Revenue Stamps	180	182	184
Securities, Commissions, Certificates, Etc.	486	1,170	1,090
Uncut Currency, etc	2,918	3,090	3,100
Space Utilized by Other Agencies and Other Miscellaneous Services	4,511	4,558	4,626
Total Revenue from Sales (carried forward)	$237,372	$267,220	$294,745

DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
BUREAU OF ENGRAVING AND PRINTING FUND

Revenue and Expense (in thousands of dollars) - Continued

	1989 actual	1990 estimate	1991 estimate
Revenue from Sales (brought forward)	$237,372	$267,220	$294,745
Operating Costs:			
Manufacturing labor	35,183	39,816	42,826
Salaries and other indirect labor	62,464	70,689	74,258
Employer's share of personnel benefits	14,036	15,884	16,687
Benefits for former employees	0	75	75
Direct material	53,847	58,044	72,569
Factory and other supplies	6,890	7,427	9,006
Depreciation and amortization	17,871	19,264	22,766
Standard level user charges	1,341	1,074	1,125
Rent, communications and utilities	4,035	4,721	5,122
Uncut currency	1,154	1,244	1,341
Other Services	16,242	17,508	18,873
Repair parts and supplies	3,157	3,403	3,668
Travel and transportation of persons	738	796	858
Transportation of things	164	177	191
Printing and reproduction	119	128	138
Minor equipment	530	571	616
Insurance claims and indemnities	0	5	5
Total Operating Costs	217,771	240,826	270,124
Less: Maintenance shop costs capitalized	2,296	2,475	2,668
Add: Net increase (-) or decrease (+) in finished goods and work in process inventories	699	753	812
Adjusted Cost of Sales	$216,174	$239,104	$268,268
Net Income for the year	$ 21,198	$ 28,116	$ 26,477

Bureau of Engraving and Printing
Bureau of Engraving and Printing Fund

DETAIL OF PERMANENT POSITIONS

	Actual FY 1989	Estimate FY 1990	Estimate FY 1991
Senior Executive Service 1	1	-	-
Senior Executive Service 2	-	1	-
Senior Executive Service 3	1	-	1
Senior Executive Service 4	2	3	3
Senior Executive Service 5	2	2	2
Subtotal	6	6	6
GS/GM-15	26	26	26
GS/GM-14	71	71	73
GS/GM-13	86	90	93
GS-12	111	113	113
GS-11	60	62	63
GS-10	4	4	4
GS-9	57	63	63
GS-8	30	35	35
GS-7	81	91	91
GS-6	67	86	86
GS-5	82	87	87
GS-4	35	35	35
GS-3	9	9	9
GS-2	0	0	0
GS-1	1	2	2
Subtotal	720	774	780
Ungraded	1,482	1,525	1,594
Total Permanent positions	2,208	2,305	2,380
Unfilled positions, end of year	(56)	(33)	-
Total permanent employment, end of year	2,152	2,272	2,380

WEDNESDAY, FEBRUARY 28, 1990.

OFFICE OF INSPECTOR GENERAL

WITNESSES

DONALD E. KIRKENDALL, INSPECTOR GENERAL
ROBERT P. CESCA, DEPUTY INSPECTOR GENERAL
PAUL J. LILLIS, DEPUTY ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS
JAY M. WEINSTEIN, ASSISTANT INSPECTOR GENERAL FOR AUDIT
DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT

Mr. ROYBAL. This committee will now hear from the Office of the Inspector General.

Mr. KIRKENDALL. Good afternoon, Mr. Chairman. We have a statement to submit for the record, and we would like to summarize that.

Mr. ROYBAL. All right. Without objection, it will be the order. Please continue with your summary.

[The information follows:]

OPENING STATEMENT OF
DONALD E. KIRKENDALL
INSPECTOR GENERAL
DEPARTMENT OF THE TREASURY

BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE,
AND GENERAL GOVERNMENT

FY 1991 SALARIES AND EXPENSES APPROPRIATION

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss the Fiscal Year 1991 budget request for the Salaries and Expenses appropriation of the Department of the Treasury's Office of Inspector General (OIG).

The Fiscal Year 1991 budget request reflects our commitment to fulfill the important responsibilities of the Inspector General Act within the current fiscal constraints.

The Inspector General Act Amendments of 1988 (IG Act) (P.L. 100-504) provided for the establishment of the statutory Inspector General within the Department of the Treasury. This act empowered the Inspector General to conduct and supervise audits and investigations designed to: (1) promote economy, efficiency, and effectiveness and prevent fraud, waste, and abuse in Departmental programs and operations; and (2) provide a means of keeping the Secretary and the Congress fully and currently informed of problems and deficiencies in the administration of such programs and operations.

Specifically, the IG Act consolidated the internal audit functions of the administrative Office of the Inspector General, Departmental Offices (DO); Alcohol, Tobacco, & Firearms (ATF); U.S. Customs Service (Customs); U.S. Secret Service; and provided oversight responsibility for the Internal Revenue Service internal audit functions. In addition, the Act empowered the OIG with oversight responsibility for the internal investigations conducted by the law enforcement bureaus (LEB's) and the Internal Revenue Service as well as direct internal investigative responsibilities for the non-law enforcement bureaus. The OIG also has responsibility through Treasury directive to conduct investigations of senior officials and cases of notoriety in the LEB's.

The OIG's FY 1990 budget basically reflected a transfer of funds which could be identified by the parent organizations as in support of the internal audit function at the time the statutory OIG was established. It was subsequently determined, as I will explain a little later, that these transfers were not sufficient to enable us to fulfill our basic requirements. The FY 1991 budget request before you is our first opportunity to identify the resources needed to support our basic mandates as a fully functioning OIG as defined by the IG Act. It requests $21.3 million which is a net increase of $6.3 million and 46 FTE's over the FY 1990 authorized level. The OIG's FY 1991 budget request contains increases to the base for inflation, the annualization

of the transfer from IRS, and program increases for the Office of Thrift Supervision responsibilities, investigations, ADP, OIG-wide administration, and audit functions.

For FY 1991, we have requested program increases for three major areas. First, we will be responsive to the Administration's objective of increased and/or enhanced management controls. We will be focusing our efforts to support early warning systems and we will want to do more in the way of providing advisory services to management as a prevention methodology as well as an early warning technique. We will be focusing on the issues raised by the Department to OMB Director Darman regarding identified problems with accounting systems, oversight of systems development activities, and fund controls at Customs. These are not new areas of concern for us. Our current audit plan calls for audits to be initiated or continued which will address accounting systems, systems design and other areas centering around internal control and integrity, including planned audits of accounting systems reconciliation (multi-bureau), contract administration (multi-bureau), System 90, Automated Internal Controls within the STAR System, and a Design Review of Public Debt's Accounting and Reporting System. We expect these will be fruitful areas in support of this focus. Similar audits will be planned in FY 1991. These areas are ones that we have devoted audit resources to in the past; and, have helped, I believe to focus the Department's concern. Because of

the continuing concerns on the part of the Department, OMB, and the Congress, these are areas we plan to continue to review. We have sought to identify audit themes which support this overall focus of management control. The themes for FY 1990 are ones that we can project will carry us into FY 1991 as well. They include financial management, cash management, revenue enhancement, procurement/contract, ADP systems, security, and mission related audits.

Our second focus is to increase our oversight capability. The IG Act gave us an oversight responsibility that clearly is different from other IG's. We need to build and foster this oversight role, and we need resources to do it. Because our FY 1990 base was formed from a transfer of pre-existing audit-associated resources, no resources were really identified at the time of formation of the statutory IG to accommodate this expanded responsibility. This is our first opportunity to do so. Just as clearly, recent events surrounding IRS' ability to detect, investigate, and discipline misconduct by senior employees, including Congressional oversight hearings, have heightened the need for adequate oversight. Through cooperation with the IRS Commissioner Goldberg, we obtained, through a transfer of funds and positions, adequate funding to greatly enhance our ability to provide the needed investigations/ oversight during this fiscal year. Previously, we had to turn back to the law enforcement bureaus 50 percent of the

investigative cases we should be doing. The cases were typically ones regarding allegations against employees and officials at GM-15 and above. Our audit oversight had been superficial as well; and I want to see our efforts deepened, but we need more resources. Therefore, our budget request includes an annualized base transfer to the OIG from IRS of 21 FTE's and $1.9 million. This transfer to our base will enable us to continue with our increased oversight, audit, and investigative presence. Going hand in hand with our oversight responsibility is our responsibility, for quality assurance and external reviews of our own operations. Without adequate resources to conduct these reviews we cannot be assured that the audit and investigative programs throughout the Department are being performed effectively and efficiently and in accordance with acceptable professional standards.

Our third focus will be to advance the audit and investigative coverage we will be providing to the Office of Thrift Supervision (OTS) recently created within Treasury by the Financial Institutions Reform, Recovery, and Enforcement Act. We consider the provision of audit and investigative coverage to OTS absolutely vital because of the critical state in which the savings and loan industry finds itself. It is incumbent upon us to ensure that the programs, processes, and systems which OTS will be employing in carrying out their S&L regulatory and examining functions are the best that they can be.

Now that I have given you a general framework of where we want to go in FY 1991, let me spend some time discussing our program initiatives. But let me also take a moment to say that these program increases for FY 1991 are just a first step in what I see as a long-term need for controlled and planned growth to be responsive to the focuses I have just outlined. We have chosen to take a road of incremental growth to fulfill the requirements of the IG Act. We have chosen this road as one that is prudent, both in terms of the Administration's fiscal constraints and in terms of our own management ability to deal with organizational growth. But I can tell you that I see a very real need for additional resources, particularly in the investigative area; and we will be looking toward seeking these resources in future years.

Our program increases in FY 1991 are designed to increase coverage in the Treasury Department to ensure the public's trust by reviewing policies, procedures, and systems that are in place to foster efficiency and to identify and prevent fraudulent, wasteful, or abusive practices. We require additional resources in the following areas:

Office of Thrift Supervision -- The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 moved a portion of the independent thrift regulation functions performed by the

Federal Home Loan Bank Board into the Treasury's newly created Office of Thrift Supervision (OTS). By virtue of its placement, OTS will require audit and investigative coverage by the Department's Office of Inspector General (OIG). However, no resources were provided directly by the legislation to support the audit and investigative responsibilities to be assumed by the OIG for OTS.

An additional 30 positions and $2,578,000 are requested for OIG's OTS responsibilities. The positions would enable the OIG to conduct audits of OTS supervisory functions and institute a proactive and reactive investigative function. Recent problems in the thrift industry clearly indicate the need for an active, independent review function to assist them in identifying the most effective and efficient methods to ensure the safety and soundness of the savings and loan (S&L) industry.

Additional investigative resources are required based on the current number, sensitivity, complexity and geographical dispersion of active cases being transferred to the Treasury Investigations from the former FHLBB OIG for analyses and investigation. Furthermore, the projected level of investigative activity for FY 1990 will at least double. This is fully expected based on the vulnerable nature of the OTS work environment and widespread institutionalized misconduct.

We found that virtually no audit work had been conducted in the areas which comprise OTS. This condition, coupled with the known problems which have led to the S&L crisis, dictate a critical need for OIG coverage to help management ensure the economy, efficiency, and effectiveness of its programmatic activities, as well as proactive and reactive efforts to prevent and detect fraud, waste, and abuse.

Investigations -- Currently this staff of 32 FTE's cannot adequately handle the number of expected investigations in FY 1991 and will require cases to be referred to the law enforcement bureaus to investigate. In FY 1989, approximately 50 percent of the OIG caseload inventory was referred to the law enforcement bureaus because of inadequate resources. With the Administration's and GAO's emphasis on integrity and efficiency and because we have established an investigative field office structure and presence in the field, at least a 15 percent increase in investigative cases is expected. The request of 8 FTE's and $430,000 is the initial request for resources needed to handle this increase and refer fewer OIG cases to the law enforcement bureaus.

ADP Resources -- FY 1990, funds transfers from Departmental Offices, Secret Service, Customs, and ATF were all negotiated in good faith. However, as I mentioned earlier, the funding programmed for the 237 FTE, based on current cost estimates for

existing staff and identified vacancies, was subsequently determined to be insufficient to meet OIG ADP needs. To cover the deficiency, ADP advances were forfeited and are now being requested in our FY 1991 ADP increase which totals $974,000. I cannot stress enough how important it is for our operation to have the necessary ADP support and equipment for our investigations and audits. We must collect and analyze massive amounts of data and we must track, through multiple stages, the conduct and follow-up of audits and investigations. At the time of establishment of the statutory OIG, our computer support system was at 97 percent utilization and we had virtually no microcomputers. With the influx of additional staff (nearly doubling our size from 115 to 220) in April of 1989 our system became immediately overtaxed. We have done some band-aid work to keep us afloat, doing some upgrades to the existing system, all with the view of converting to a new system. We are also, as I mentioned previously, trying to put microcomputer technology, and their inherent benefits to our professionals, into the hands of our staff.

Policy, Planning, & Resources -- An increase of $332,000 is requested. These funds are needed: to implement within the OIG the Departmental Drug Testing Program developed in response to Executive Order 12564; for space rental costs for onboard employees at various Treasury bureau locations, whose current space needs are being absorbed by those bureaus; and for

administrative costs associated with the increased staff created by the consolidation which were not fully identified and provided for during the preparation of the FY 1990 budget.

Audit -- An increase of 3 positions and $165,000 is requested. These positions would enable the OIG to conduct audits in support of our long-range goals. The increase in positions will enable Audit to review additional important programs and operations such as the ability of the supervisory functions of the Office of the Comptroller of the Currency to address problems in the banking industry.

Let me conclude by saying that I believe our request will put us on track in carrying out the mandates of the Inspector General Act. It will also enable us to be responsive to the goals of the Administration, to Treasury Management initiatives, and to the concerns of Congress.

I would be happy to now answer any questions you may have regarding our FY 1991 request or our operations at the Treasury's Office of Inspector General.

Bureau of Engraving and Printing
Bureau of Engraving and Printing Fund

AVERAGE GRADES AND SALARIES

	Actual FY 1989	Estimate FY 1990	Estimate FY 1991
Average ES salary	$74,832	$77,909	$81,804
Average GS grade	9.49	9.35	9.38
Average GS salary	$30,907	$31,699	$33,284
Average salary of ungraded positions	$35,694	$36,979	$38,828
Average Grade, grades established by act of (date and code citation)	...	...	...
Average salary, grades established by act of (date and code citation)	...	...	...

Mr. KIRKENDALL. Thank you, Mr. Chairman, Members of the committee. I am pleased to appear here today for the first time to request our salaries and expenses appropriation for the Office of Inspector General (OIG). The Fiscal Year 1991 budget request reflects our commitment to fulfill the important responsibilities of the Inspector General Act, which we came under last year.

For Fiscal Year 1991, we requested program increases in three major areas. First, we will be responsive to the Administration's objective of increased and/or enhanced management controls. Our second focus is to increase our oversight responsibilities. And our third focus is on the advancing of audit and investigative coverage we will be providing primarily to the Office of Thrift Supervision, which we became responsible for when the Financial Institutions Reform, Recovery, and Enforcement Act became law last August, and also in other areas of the department where we have significant audit responsibilities.

We have chosen a road of incremental growth to fulfill the requirements of the Inspector General Act. We have chosen this road as one that is prudent, both in terms of the Administration's fiscal constraints and in terms of our own management ability to deal with organizational growth.

Our program increases in Fiscal Year 1991 are designed to increase coverage in the Treasury Department to ensure the public's trust by reviewing polices, procedures, and systems that are in place to foster efficiency and economy, and to identify and prevent fraudulent, wasteful, and abusive practices.

The Fiscal Year 1991 budget request totals $21.3 million, which is a net increase of about $6 million over our 1990 levels. We require additional resources in four areas. We require about $1.7 million over the 1990 level just to maintain our current level of effort.

Secondly, in our audit and investigative coverage of the Office of Thrift Supervision we request an increase of 30 FTEs, and $2.6 million to fulfill our responsibilities in that important area relating to the S&L function that the OIG is responsible for overseeing. The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 moved a portion of the independent thrift regulatory functions performed by the Federal Home Loan Bank Board into the Treasury's newly created Office of Thrift Supervision [OTS].

By virtue of its placement, OTS will require extensive audit and investigative coverage by our office. However, no resources were provided directly by the legislation to support the audit and investigative responsibilities that we now have, which is why we are requesting resources at this time.

Thirdly, our Office of Investigations up until very recently could hardly be called an office of investigations. It had basically 10 or 12 people in it, which really is not enough to have sort of a critical mass. We were returning many of the high level employee cases to the law enforcement bureaus because we did not have the staff resources to do the work.

Under the plan that we bring before you today, we will be able to do all of those cases without returning them to the organizations from which the high level employees come, which will certainly increase the credibility of the investigative process in the Department of the Treasury.

Next, we have asked for $974,000 in the ADP area. We are saturated in our mini-computer system, on which we have all of our audit management systems; our investigative management systems; and our correspondence systems. In fact, before the IG Act became effective, when we had about 100 people, our system was totally saturated. We can only get 15 people on it at one time. We moved from about 100 people on April 16, 1989, to 200 people by virtue of the implementation of the Inspector General Act, and we virtually have no computer power to manage that operation.

Up until just recently, we had perhaps one-or two microcomputers in all of our office. So in summary form, we are not in the 20th century as it relates to managing the operations.

We also have funds that we are requesting, about $300,000, to deal with the departmental drug testing program, the cost of getting our operation included in that. Also we have some space costs that we need to absorb by virtue of the new IG Act, which we now will be going out and paying on our own instead of being housed by bureaus in the department.

In concluding, let me just say that I think our request will put us on track in carrying out the mandates of the Inspector General Act, which in my view is to save money, find fraud, and to improve government operations.

We would be glad to answer any questions that you have now, Mr. Chairman.

APPROPRIATION TRANSFERS TO STATUTORY OIG

Mr. ROYBAL. Thank you, Mr. Kirkendall. In 1989 funds including personnel, were transferred from other appropriations. Will you please summarize for the committee how much each treasury bureau has contributed in both money and people?

Mr. KIRKENDALL. Mr. Chairman, I do not have that information with me. I would be glad to provide that for the record.

[The information follows:]

$13.6 million was transferred from eight Treasury bureaus for the OIG's first full year appropriation in FY 1990 as follows:

Bureau	FTE	Amount (millions)
U.S. Customs Service	91	$5,642
U.S. Secret Service	3	156
Alcohol, Tobacco, and Firearms	19	905
Internal Revenue Service	5	308
Departmental Offices	117	6,134
Financial Management Service		200
Bureau of the Public Debt	2	223
U.S. Mint		36
Total	237	[1] 13,605

[1] Does not add due to rounding.

OFFICE OF THRIFT SUPERVISION

Mr. ROYBAL. I would appreciate that if you would provide it for the record so that we have that. And we will consider that also when the time comes for the appropriation to be made. You are re-

questing 30 positions and $2.6 million for the Office of Thrift Supervision. Tell the committee what is the Office of Thrift Supervision; what functions the office performs; and what is so thrifty about $2.6 million and 30 positions.

Mr. KIRKENDALL. Mr. Chairman, the Office of Thrift Supervision is the part of the old Federal Home Loan Bank Board that had the regulatory responsibilities over the savings and loan industry. As it turns out, after we inquired into it, part of the old Home Loan Bank Board has had virtually no audit coverage in the last six or seven years. I personally believe that if you are going to have a safe and sound banking system, certainly the people that do the regulating, the examiners, need also to be examined.

I came from an audit background in a number of federal agencies and generally, from my experience, when an organization has had little or no audit coverage for that long a period of time, you can be assured that they need some attention. We believe also that that particular area will probably be the source of many of the new complaints that we get related to our investigative activity.

Up until now, we have not had investigative presence in the field. We have had all of our people based in Washington. We are in the process of moving our investigative people out into four regional locations around the country. Our investigators will have the opportunity to talk to the regulators and to the people that work in the Office of Thrift Supervision around the country, and if there is something going wrong out there, people will know who we are and will be able to come to us.

I think that is one of the most important responsibilities I have as Inspector General when you consider that the S&L is probably one of the biggest crises that we have in the country today. The regulators of that industry is something that certainly needs to be looked at.

Mr. ROYBAL. Do you really believe that you have independent authority to do these things?

Mr. KIRKENDALL. I sure do. The Inspector General Act of 1978 as amended in 1988 gives the Inspector General sufficient authority to go in and do anything we want to do in the Department of the Treasury.

ADP RESOURCE REQUIREMENTS

Mr. ROYBAL. Yes. You told the committee just a little while ago that you do not have up-to-the-minute state-of-the-art equipment——

Mr. KIRKENDALL. I am trying to correct that.

Mr. ROYBAL [continuing]. To do investigations to do other things, which means then that in order to correct them, more money will be necessary. Is there an estimate as to how much this is going to cost over a period of the next five years?

Mr. KIRKENDALL. We do have a five-year plan, which we would be happy to submit for the record. What we are trying to do right now is use a stopgap plan to be able to get through the next couple of years. And then from there on, we have a definite plan on how to deal with ADP resources.

Mr. ROYBAL. In other words, the way your plan is designed at the present time is to start a five-year plan two years from now?

Mr. KIRKENDALL. We have a five-year plan starting from this budget year 1991.

Mr. ROYBAL. Will that plan be completed in five years?

Mr. KIRKENDALL. Except for replacement cost, it will be. Our aim in the microcomputer area is to get to the point where we have at least one microcomputer for every two professional employees. We are a long way from that now. We have a ratio of four or five to one right now.

Mr. ROYBAL. But when you submit that five-year plan to the committee, it will at least give us an estimate of the cost.

Mr. KIRKENDALL. For the ADP function. For our equipment cost.

Mr. ROYBAL. That is right. And that is what we will be needing. And also perhaps you can add to that what your projection is with regard to the establishment of state-of- the-art equipment that is needed to accomplish your objectives.

Mr. KIRKENDALL. We have that. That is in the plan. It is basically the microcomputers, the laptops, the desktops, and an enhancement to a minisystem that we already have that has all of our management information systems on it.

Mr. ROYBAL. And that is in that five-year plan?

Mr. KIRKENDALL. Yes, sir.

Mr. ROYBAL. It will be very interesting to see and to analyze.

Mr. KIRKENDALL. Okay. Fine.

[The information follows:]

27-962 O—90——16

DEPARTMENT OF THE TREASURY
OFFICE OF INSPECTOR GENERAL

EXECUTIVE SUMMARY

FIVE-YEAR INFORMATION SYSTEMS PLAN

FISCAL YEARS 1991 TO 1995

DEPARTMENT OF THE TREASURY
OFFICE OF INSPECTOR GENERAL
EXECUTIVE SUMMARY
FIVE YEAR INFORMATION SYSTEMS PLAN

INTRODUCTION

This document serves to summarize the Department of the Treasury, Office of Inspector General's (OIG) five year information systems plan for fiscal year 1991 through fiscal year 1995.

The OIG's information system strategies encompass three major areas of technology which include; centralized (host) computing, end-user computing via personal computers (PC's), and telecommunications. The information systems technologies and approaches in this plan reflect strategies that use proven systems concepts, standardized end user workstation architecture, and cost effective systems solutions. Risk analysis and computer security awareness programs are planned to provide information systems with a secure processing environment and adequate internal controls.

During the next five years the OIG will establish a cohesive information systems architecture. PC workstations will serve as multipurpose units providing access to the central computer for office automation, electronic messaging, data entry and retrieval into OIG Management Information Systems and administrative systems. The workstations will also be used as standalone PC's providing end user computing. Staff auditors, investigators and other support professionals will perform analytical work on the PC's.

The OIG's central computer (referred to as the IGVAX) will serve as the hub of the OIG's total system configuration. PC workstations will be coupled through networking to one another (where appropriate to take advantage of economies of scale) and to the IGVAX. The Department of Treasury Consolidated Data Network (CDN) will provide the telecommunications highspeed link to establish an OIG information processing network. This network will provide the nation-wide data communication needs electronically linking all OIG offices throughout the United States together.

OIG HISTORICAL PERSPECTIVE

The Secretary of the Treasury established an administrative OIG for the Department in 1978. The OIG began fiscal year 1989 with a full time employee (FTE) allowance of approximately 120. The Inspector General Act Amendments of 1988 (Public Law 100-504) expanded the OIG's realm of responsibility by establishing a statutory OIG for Treasury. The statutory OIG legislation consolidated into the existing administrative OIG the internal audit staffs of the U.S. Customs Service, the Bureau of Alcohol, Tobacco and Firearms, and the U.S. Secret Service. This

consolidation increased the OIG's FTE to approximately 250, the number of regional offices from five to twelve, and the number of Washington offices from seven to ten. When the Office of Thrift Supervision (OTS) was established by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the OIG was assigned internal audit and investigative responsibilities. Again, the OIG FTE was increased by 30 and the number of OIG office locations in Washington was increased to eleven. The OIG will also establish an oversight office during the second quarter of fiscal year 1990. The OIG FTE will be increased by 21. The OIG will have grown in less than twelve months by 150% from an FTE of approximately 120 to 300 and from five regional office locations to twelve. However, the capacity of the OIG's central computer has not been expanded to accommodate this drastic increase in employees and their need for more centralized information processing from approximately 26 office locations nationwide. Likewise, the OIG started fiscal year 1989 with twelve microcomputers (PC's) to support end user computing needs.

Presently, access to the IGVAX is via the old Federal Telecommunications System (FTS). Regional offices cannot always get through via FTS and when they do gain access, most often they experience transmission interference due to deficiencies in the FTS system. The transmission speed of the old FTS system is also slow and lacks security. The OIG will start installing in the regional offices telecommunications equipment that is available through the Department of Treasury's Consolidated Data Network (CDN) contract. The CDN will enable a decentralized staff to access the IGVAX at a much higher rate of speed with little or no transmission interference and a high degree of security via encryption capabilities.

INFORMATION SYSTEMS REQUIREMENTS

Increased automation will continue to occur within the various Treasury bureaus. This places a burden on the OIG to avail itself of the necessary automated tools to audit and investigate these bureau systems, which will process billions of transactions representing millions of dollars. There are over 125 major automated systems within the Treasury non-law enforcement bureaus. Large investments of public taxpayers' money have been earmarked to develop and implement these highly automated systems. If the OIG does not possess the computer resources to audit such systems, vulnerabilities and potential dollar savings and cost benefits cannot be identified.

It will be virtually impossible for auditors to manually review the adequacy of internal operational controls, and validate the accuracy of data being processed without OIG automated tools. The OIG must also pursue new work methods aimed at increasing productivity, which will be found in the increase use of

automation. The OIG's Tactical Information Systems Plan and its Five Year Information Systems Plan outline the goals and missions for enhanced OIG automation. These two documents will be updated on an annual basis to provide detailed requirements to substantiate the OIG's annual fiscal year ADP budget submissions to the Office of Management and Budget (OMB).

To meet the challenges discussed above, the OIG must vigorously pursue the procurement of certain computer hardware and software devices to establish a systems configuration which provides automated tools and communications capabilities to both audit and investigation personnel in headquarters and field locations. The OIG's computing philosophy will be one of centralized processing via a sufficient minicomputer or mainframe computer, augmented with an adequate number of desktop microcomputers, which should be MS-DOS compatible to take advantage of the abundance of diversified software. In addition, laptop microcomputers (also MS-DOS compatible) will be required to support field audits and investigations. These units will need to be lightweight, portable, and battery operated.

The OIG must be able to access various Treasury bureau mainframe computer systems for the purpose of extracting data files and transferring them to the OIG office locations for audit/investigation summary and analysis. This requirement can only be met by providing the microcomputers mentioned above. Likewise, software tools such as spreadsheets, database management retrieval systems, graphics, statistical sampling and analysis and wordprocessing software will be needed to populate both desktop and laptop microcomputers. The same software will need to be resident on the OIG's centralized computer to provide the ability to perform the same types of analysis on very large data files that would otherwise be unmanageable and not feasible to perform on the microcomputers.

Other needs to satisfy OIG automated audits/investigations will include: upgraded communications to ensure efficient, timely and secure data transmissions; and internal office automation between decentralized audit sites.

Through increased automation the Office of the Inspector General can more effectively review bureau systems and programs for internal control deficiencies and identify cost savings. As such, the OIG's mission to ensure the maintenance of a comprehensive integrity program and elimination of fraud, wasted, and abuse within the Department of the Treasury can be met.

INFORMATION SYSTEMS STRATEGIES
SUMMARY

SHORT TERM GOALS (FY90 - FY92)

- Lease additional DEC equipment to immediately expand central computing capacity beginning FY90.
- Implement enhanced OIG telecommunications plan using Treasury CDN.
- Procure desktop/laptop personal computers to expand end-user computing.
- Acquire nation-wide workstation equipment maintenance agreements.
- Develop/implement microcomputer training program.
- Develop/implement computer security awareness program.
- Issue RFP latter part of FY92 to acquire host computer providing long term central computing solutions.

LONG TERM GOALS (FY93 - FY95)

- Install mainframe computer acquired from FY92 RFP to satisfy long term central computing needs.
- Perform application systems conversions.
- Begin networking microcomputers in remote field office locations.
- Complete microcomputer acquisition/implementation plan.
- Issue contracts for the performance of risk analysis of new central computing configuration.

FISCAL YEAR NARRATIVES

Accomplishments Fiscal Year 1989

Enactment of Public Law 100-504 transferred approximately 120 FTE from all across the United States into the OIG. However, only a few pieces of ADP equipment came with these people. Personal computers that can access the IGVAX, and provide standalone word processing along with spreadsheet and database capabilities had to be acquired for the eight decentralized locations since these locations had no means of accessing the IGVAX.

The Department of the Treasury, Departmental Offices converted its personnel and payroll system to those utilized at the Department of Agriculture located at the National Finance Center in New Orleans, LA. This conversion included all OIG personnel and payroll information. Thirteen personal computers were acquired for the OIG's personnel office, and time and attendance clerks to access the new personnel and payroll system to process personnel actions, and enter time and attendance data for payroll processing.

Thirty-two laptop computers were acquired and distributed nationwide for audit and investigative personnel to take into the field while conducting audits and investigations.

The computing capacity, performance and storage of the IGVAX is at maximum capacity. The old disk storage media was replaced with newer disk technology that is capable of storing more data and transferring the data at a higher rate of speed to the computer for processing. However, this storage is currently seventy percent used.

Fiscal Year 1990

As a short term solution to expand central computing capacity, the OIG will issue a request to lease a larger central computer for two years to replace the IGVAX. The new central computer system will be housed in an OIG computer room facility. This system will be under direct control of the OIG and operated by OIG personnel. This processing environment will ensure the independence of all OIG activities and proper safeguarding of sensitive information.

Access to the IGVAX is via the old Federal Telecommunications System (FTS). Regional offices cannot always get through via FTS and when they do gain access, most often there is a lot of transmission interference on this old FTS system. The transmission speed of the old FTS system is also slow. The OIG will start installing in the regional offices, telecommunications

equipment that is available from Treasury's Consolidated Data Network (CDN) contract. The CDN will enable a decentralized staff to access the IGVAX at a much higher rate of speed, with little or no transmission interference.

The OIG will continue to strive towards its goal of one personal computer for every two auditors and investigators to enhance end-user computing by acquiring approximately thirty desktop and fifteen laptop personal computers.

On-site maintenance of all OIG computer hardware will be acquired. When a piece of equipment breaks and maintenance contracts are not in place, the equipment is rendered useless. This could jeopardize audit and investigative projects.

License agreements for the central computer operating system software have to be awarded to the respective vendors. These agreements will enable the OIG to receive technical assistance for when problems are encountered with these products, and ensure that we receive automatic updates of this software and its associated documentation.

A contract to provide at least two personal computer based training classes for each OIG employee will promote end-user computing.

Fiscal Year 1991

Computer Assisted Audit Technique (CAAT) software will be acquired and installed on the IGVAX for use by the audit and investigative staffs in the conduct of audits and investigations.

A risk analysis that was planned for FY 1990, but postponed due to budget constraints, will be conducted on the OIG computer room and the new central computer system. This will enable the OIG to comply with Treasury Directive (TD) 85-02 and Office of Management (OMB) Circular A-130.

The OIG will continue to acquire desktop (54) and laptop (5) personal computers to enhance end-user computing in accordance with the overall microcomputer implementation plan (See chart 2).

A contract to provide at least two personal computer based training classes for each OIG employee will continue to promote end-user computing within the OIG.

The contract for on-site maintenance of all OIG personal computers will be expanded to accommodate all of the aforementioned personal computer acquisitions.

Fiscal Year 1992

An off-the-shelf budget/accounting package will be procured and installed on the IGVAX for Management Resources to track and forecast the OIG budget.
The OIG will continue to acquire desktop (24) and laptop (9) personal computers to enhance end-user computing in accordance with the overall microcomputer implementation plan (See chart 2).

A technical center with a full complement of the latest state-of-the-art end-user computer hardware and software will be established. This will enable the OIG to have a variety of automated tools at one location that would be too cost prohibitive to have at each OIG office site.

The OIG's long term solution for central computing will be addressed in FY 1993. Consequently, a contract will be awarded to have a vendor provide the OIG with a sizing study of the IGVAX and its applications. This study will provide the OIG with the information it needs to produce a Request For Proposal and through the competitive bid process purchase, not lease, a larger central computer system. This computer system will replace the leased computer and it will be acquired through the full and open competitive bid process. This ensures the OIG independence by not having to rely on a single computer vendor.

Fiscal Year 1993

The OIG will take delivery of its new central computer system which will be housed in the OIG computer room located in the ICC Building. Installation should occur during the last quarter of FY 1992 and the system operational at the start of the first quarter.

ADP Resources staff will need extra technical training in order to effectively and efficiently manage the new computer system.

A risk analysis of the new computer system and the computer room will be performed to comply with TD 85-02 and OMB Circular A-130.

A replacement of the CDN should occur in FY 1993. The OIG anticipates unknown telecommunications costs to access the new OIG central computer system, the Treasury payroll and personnel systems in New Orleans, and the Executive Information System (EIS).

The OIG will procure laptop (9) and desktop (29) personal computers to continue enhancement of end-user computing.

The OIG will conduct feasibility studies to network personal computers at all office locations in order to better utilize these resources.

Fiscal Year 1994

The OIG will purchase desktop (13) and laptop (5) personal computers to reach its goal of one personal computer for every two auditors and investigators.

Contract services may have to be acquired to resolve any vulnerabilities that may have been identified in the FY 1993 risk analysis.

Networking of personal computers within the OIG may occur.

Fiscal Year 1995

Additional central computer hardware to enhance performance, storage, etc. may have to be procured. The OIG will have had two years of central computer capacity management and monitoring to determine these additional needs.

The OIG will begin to replace its laptop and desktop personal computers which were acquired in FY 1988 and FY 1989. These systems are now six and seven years old, the technology is ten to twelve years old.

INVESTIGATIONS

Mr. ROYBAL. You started to say something about investigations. What investigations do you conduct? And then can you tell the committee to what extent those investigations are made public?

Mr. KIRKENDALL. We do investigations. The sources basically come from employees. We have a hotline. They come from the hotline. They come from the public. We receive letters pointing out instances of problems. Right now, probably 90 percent of our caseload is employee cases—cases related either to the law enforcement bureaus high level individuals, because that is basically who we have responsibility for in law enforcement bureaus to investigate, or the non-law enforcement bureaus. We have responsibility for all allegations against those employees.

I would like to see that mix change. I believe in the Office of Thrift Supervision, for example, that we ought to be doing more cases related to the program area. If we have problems related to regulation of the thrift industry, we need to get into those kind of cases. I know that there are always a certain number of employee cases, and if you get an allegation, you need to do an independent evaluation of that, not necessarily to find that somebody did wrong, but to find out the facts and to find truth. As far as I am concerned, that is what we are all about.

INDEPENDENT AUTHORITY

Mr. ROYBAL. Several things come to mind with regard to this discussion. Number one is that you do have independent authority.

Mr. KIRKENDALL. Yes, sir.

Mr. ROYBAL. And that you can do all these things, and that you have a five-year plan that, when completed, you will have what we hope will be a state-of-the-art operation. The question that comes to mind is how solid is that authority? For an example, are you ever asked to delay or not to conduct an investigation?

Mr. KIRKENDALL. We have never been asked that as far as I know. I know we periodically are asked to fill out questionnaires for various committees of the Congress. And we did that recently. And I can tell you that as far as I know, and as far as the people in our office know, nobody has ever asked us to do that. If they would, I think it would be a real problem, because we have some specific reporting responsibilities to the Congress under the Inspector General Act. And that is something that I would not hesitate to report.

INVESTIGATION LEAKS

Mr. ROYBAL. What about leaks? When you conduct these investigations, are some of these big secrets given to the press?

Mr. KIRKENDALL. Well, they are not secret for very long. After you interview the first one or two people, particularly in employee cases, the word is likely to get out. Our position is, however, that when we have an open investigation, we do not disclose that information. If that information is disclosed, it does not come from us.

Mr. ROYBAL. Are you able to control, then, the matter of leaks?

Mr. KIRKENDALL. We can control it to the extent that we have control over it. If we interview somebody and he or she chooses to

then go talk to somebody else then we cannot control the release of information. We can advise them that they should not do that.

Mr. ROYBAL. But you have control over your own staff. And I am asking are there any leaks coming out of your particular office?

Mr. KIRKENDALL. Not that I know of. Everybody certainly understands that when we get an allegation from an employee, whether the employee asked for anonymity or not, confidentiality is assured. Our law says that we should do that. I recently wrote a letter to all of our employees indicating that when we get a complaint, the assumption is that the employee wants confidentiality, not that we have to ask the employee if they want confidentiality.

Mr. ROYBAL. Then you also feel then that you protect the employee's rights.

Mr. KIRKENDALL. Absolutely.

Mr. ROYBAL. And the investigation proceeds.

Mr. KIRKENDALL. Yes, sir.

Mr. ROYBAL. Because that is not the case in every department of the federal government. And that is my opinion. I think the matter of leaks is something that should be stopped as much as possible, of course. And we can get too much of it in many instances, even briefings that we have that are supposed to be secret. But you read about it in the newspaper this morning.

Mr. KIRKENDALL. That is correct.

Mr. ROYBAL. It always comes from a reliable source, never naming the individual. I think that is wrong. But we are unable to do too much about it. So I was interested in finding out how you keep your employees from leaking that. I suppose you have things under control.

Mr. KIRKENDALL. I hope so. I think we do. If we do not and you get wind of that, please let me know so I can take care of it.

Mr. ROYBAL. Mr. Alexander?

Mr. ALEXANDER. Thank you, Mr. Chairman. Welcome, gentlemen, Mr. Kirkendall. We want to accommodate your request as best we can. Having served for four years on the Government Operations Committee here in the House, which has a function similar to yours, I know the need for your office. Some of the most interesting work I have done as a Member of Congress was on Government Operations. I did not have your agency, but I had several, and also the overseas agencies, including CIA. It was very interesting to investigate the CIA and things that went on there.

IRS TRANSFER

I notice on page 2 of your request that you ask for a transfer of IRS funds——

Mr. KIRKENDALL. Yes, sir.

Mr. ALEXANDER [continuing]. 16 employees and $1.6 million. Actually, you have 21 for $1.9 million. What is the purpose of that?

Mr. KIRKENDALL. The IRS Commissioner and I had talked early on in the hearings that the IRS had last summer in the Government Operations Committee related to the

Mr. ALEXANDER. Congressman Barnard's.

Mr. KIRKENDALL [continuing]. Integrity issues that are——

Mr. ALEXANDER. Barnard's Subcommittee on Commerce, Consumer and Monetary Affairs. I was there.

Mr. KIRKENDALL. Yes, sir.

Mr. ALEXANDER. I thought that was what it was.

Mr. KIRKENDALL. That is what it is about. In response to that set of hearings, we were able to deal with that by making a transfer under an authority that the Secretary already has to make that transfer. And basically what that means is that now we are doing a lot of the investigations of the high level people in the IRS that before the inspection service was doing. Specifically, that deals with all of the people in the inspection service, all of the SES people, and all of the GM-15 people and above throughout the IRS.

So we are in the process right now of making that transition. Again, within a period of two or three months, we will be in a position that when we get a complaint against one of the high level people we will be able to do it with our staff instead of what has been happening. In the past, when a complaint came to us, we put a case number on it, we sent it back to the IRS inspection service for investigation, and we would monitor it. So I think it improves the integrity of the system, as far as the taxpayers go, that the complaints against IRS top officials are in fact getting a lot better and a lot more independent review.

And certainly, perception is reality. So it does not matter whether it is true or not. If the perception is there and it is a widespread perception, I think the system that we came up with is going to deal with that.

CONGRESSIONAL INTEREST IN IRS

Mr. ALEXANDER. Just for your general information, Congressman Barnard's Subcommittee is one of three committees in the House that is investigating those allegations. The others are the Appropriations Subcommittee on Commerce, Justice, State and Judiciary, and Congressman Hughes' Subcommittee on Crime of the Judicary Committee. So you might put that away for your reference, because we are independently investigating some of those allegations. One of our investigators is a former agent for IRS. And we will be prepared to move forward with that investigation within a couple of weeks. So you might want to talk about it.

Mr. KIRKENDALL. Okay. If it is okay with you, we would like to get with your staff——

Mr. ALEXANDER. Sure.

Mr. KIRKENDALL [continuing]. And talk about that, because we have a lot of issues that we currently have on our——

Mr. ALEXANDER. Well, in a couple of weeks, let us get together and drink a cup of coffee and talk it over.

Mr. KIRKENDALL. Sure.

Mr. ALEXANDER. Thank you very much.

Mr. ROYBAL. Mr. Kirkendall, I would like to thank you and your colleagues for your testimony this afternoon.

Mr. KIRKENDALL. Yes, sir.

FY 1991 INCREASE OVER FY 1990 APPROPRIATION

Mr. ROYBAL. The committee will take it under advisement. Before you leave, I would like to just review one last question, and that is your request of $7,791,000 more for 1991 than in 1990. Will you please for the record tell us what you are going to do with that money?

Mr. KIRKENDALL. Well, basically $4.4 million relates to program changes; $2.6, as I indicated, is for the Office of Thrift Supervision. That includes audit, investigation, and support people. Our general investigation program, in wanting to get up to speed, 8 FTEs is what we think it is going to take to do that; 3 FTEs on the audit side are also needed. So that is basically the $4.4 million.

Mr. ROYBAL. Okay.

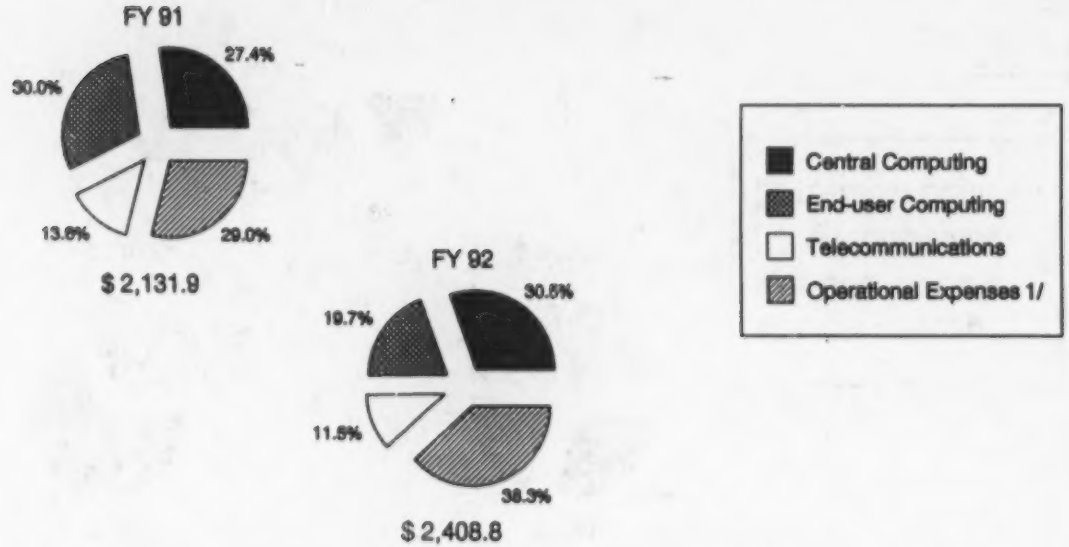
Mr. KIRKENDALL. Other changes include adjustments necessary to maintain current levels. It includes pay raise adjustments of various kinds, Public Law 101-194 the 1990 and 1991 pay adjustments; custom space transfers is another lump of that. The other part is the annualization of the IRS issue that we just talked about. So that basically adds up to that amount.

Mr. ROYBAL. Thank you very much. Those are all the questions that I have. I would like to thank you again. Thank you and your colleagues for your presence.

[The justifications follow:]

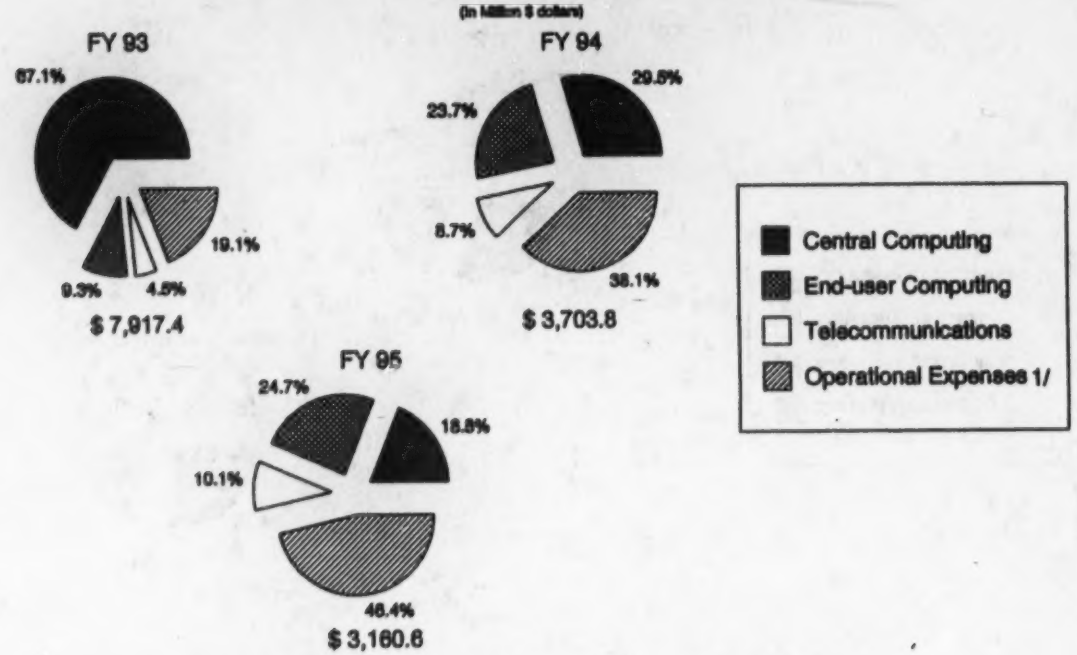
Allocation of OIG Computing Dollars

(In Million $ dollars)



1/ ADP Operating Expenses include such items as security awareness, equipment maintenance, and personnel compensation

Allocation of OIG Computing Dollars



1/ ADP Operating Expenses include such items as security awareness, equipment maintenance, and personnel compensation

OFFICE OF INSPECTOR GENERAL
MICROCOMPUTER FIVE YEAR
IMPLEMENTATION PLAN

Chart 2

Desktop Units	FY89	FY90	FY91	FY92	FY93	FY94	Total Units	Users Supported	Ratio User:PC	Requirements
Professional Staff	30	9	16	15	21	12	103	206	2:1	Audit/investigative analytical tools and workpaper/evidence preparation
Secretarial Staff	9	9	16	0	0	0	34	34	1:1	T&A/Payroll data entry, word processing, electronic messaging, desktop management
Senior Management	3	6	15	6	6	0	36	36	1:1	Executive - information resource management (Directors and above)
ADP Resources	2	1	3	3	2	1	12	12	1:1	Software development, end-user support, EDP audit support
Admin/Personnel Resources	3	5	4	0	0	0	12	12	1:1	Online data entry of personnel/payroll information, budget management, property inventory
Total	47	30	54	24	29	13	197	300		

Laptop Units	FY89	FY90	FY91	FY92	FY93	FY94	Total Units	Users Supported	Ratio User:PC	Requirements
Laptop Microcomputers	32	15	8	9	9	5	75	300	4:1	Audit/investigative data collection, analytical tools for field work Headquarters staff ability to work remotely

Note: The number of units in the implementation plan are consistent with monies reflected in OIG budget submissions to DO and OMB.

Office of Inspector General, Salaries and Expenses

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	254	237	$13,605
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill	0	0	0
FY 1990 Rescissions (P.L. 101-164) Enacted in Transportation Bill	0	0	0
Sequestration (P.L. 99-177)	0	0	(119)
Transfers from Internal Revenue Service	16	16	1,557
FY 1990 Authorized Level	270	253	15,043
FY 1991 Estimate	316	299	21,296

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in thousands)

	ACTUALS FY 1989		AUTHORIZED LEVEL FY 1990		BUDGET ESTIMATE FY 1991		INCREASE (+) OR DECREASE (-) FOR FY 1991 TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Office of Inspector General	88	5,993	253	15,043	299	21,296	46	6,253	41	4,394	5	1,859
Unobligated balance lapsing		58		0		0		0		0		0
Total appropriation, authorized level and budget estimates	88	6,052	253	15,043	299	21,296	46	6,253	41	4,394	5	1,859
Permanent positions	108		270		316		46		41		5	

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED

Program Changes:	Perm. Pos.	FTE	Amount ($000)
1. Office of Thrift Supervision	30	30	2,578
2. Investigations	8	8	430
3. ADP Resources			974
4. Policy, Planning, & Resources			332
5. Audit	3	3	165
6. Restore a one-time reduction			119
7. Program reductions to Offset Pay Costs and Other Absorptions:			
-- Permanent Change of Station (PCS) moves			(204)
Total, Program Changes	41	41	4,394
Other Changes:			
Adjustments Necessary to Maintain Current Levels:			
1. Annualization of FY 1990 Pay Act Increases			104
2. Increased Cost for Proposed FY 1991 Pay Raise			288
3. Increased Cost for EX/SES Pay Raise (P.L. 101-194)			88
4. Increased Cost for Additional Compensable Day			44
5. Increased Cost of Health Insurance			5
6. Increased Cost of Other Benefits			19
7. Increased Cost of Travel and Transportation of Persons			29
8. Increased Cost of Transportation of Things			1

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED

	Perm. Pos.	FTE	Amount ($000)
9. Increased Cost of Rent, Communications, and Utilities			886
10. Increased Cost of Printing and Reproduction			2
11. Increased Cost of Other Services			72
12. Increased Cost of Supplies and Materials			2
Subtotal, Adjustments Necessary to Maintain Current Levels	0	0	1,540
Transfers:			
1. Internal Revenue Service -- FY 1990 Annualization	5	5	319
Subtotal, Transfers	5	5	319
Total, Other Changes	5	5	1,859
Total, increases or decreases compared with FY 1990 Authorized Level	46	46	6,253

Office of Inspector General, Salaries and Expenses

SUMMARY JUSTIFICATION OF THE FY 1991 BUDGET ESTIMATES

General Statement

The Inspector General Act Amendments of 1988 (P.L. 100-504) provide for the establishment of a statutory Inspector General within the Department of the Treasury. The Office of Inspector General conducts and supervises audits and investigations designed to: (1) promote economy, efficiency, and effectiveness and prevent fraud, waste, and abuse in Departmental programs and operations; and (2) to provide a means of keeping the Secretary and the Congress fully and currently informed of problems and deficiencies in the administration of such programs and operations.

Organization and Objectives

The Inspector General Act Amendments of 1988 which established a statutory Inspector General at the Treasury Department provided for consolidation of the staff and responsibilities for the internal audit functions at the Bureau of Alcohol, Tobacco and Firearms (BATF), United States Customs Service (USCS), and the United States Secret Service (USSS) with the previously established administrative Office of the Inspector General. Under the law, the Office of Inspector General retains oversight responsibility for the Offices of Inspection/Internal Affairs at the Internal Revenue Service (IRS), USCS, BATF, and USSS. In addition to the consolidation of these audit functions and oversight responsibilities, the statutory requirements of Congressional reporting and legislative and regulatory review were levied on the organization, as were other various statutory requirements not previously required of the administrative Office of the Inspector General.

The Inspector General Act calls for the Office of Inspector General (OIG) to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the Department. The OIG coordinates relationships between the Department of the Treasury and other Federal agencies and State and local governments with respect to their audit and investigative responsibilities.

In carrying out these responsibilities, the Inspector General exercises executive direction over the following: (1) Assistant Inspector General for Audit, (2) Assistant Inspector General for Investigations, (3) Assistant Inspector General for Policy, Planning, and Resources, and (4) Assistant Inspector General for Oversight and Quality Assurance.

The Assistant Inspector General for Audit ensures compliance with the standards established by the Comptroller General of the United States, the President's Council on Integrity and Efficiency (PCIE), and other professional guidelines for all audits performed in or for the Department. The audit organization conducts financial and compliance, economy and efficiency, and program results internal audits. These audits can be Government-wide, Department-wide, or multi-bureau in scope or they can cover a single organization. They also can be multi-location in nature. Support is provided to investigations, and joint fraud prevention and detection surveys are conducted when appropriate.

The Assistant Inspector General for Investigations investigates or controls the investigation of allegations of criminal and other misconduct by employees in the Office of the Comptroller of the Currency (OCC), Departmental Offices (DO), Bureau of Engraving and Printing (BEP), Federal Law Enforcement Training Center (FLETC), Financial Management Service (FMS), Bureau of the Mint, Bureau of Public Debt (BPD), and Savings Bond Division and investigates or oversees cases on matters of significance throughout the Department. These investigations involve: (1) alleged violations of fraud against the Government, false claims and statements, bribery, embezzlement, kickbacks, or other fraudulent or criminal activities affecting Treasury programs, contracts, and operations; (2) alleged violations of other Federal statutes, such as laws pertaining to Treasury contracts; (3) alleged improprieties on the part of Departmental employees and others in connection with Treasury programs; (4) noncompliance with legislative or administrative requirements relating to Treasury programs; and (5) alleged violations of Treasury standards of conduct by Department employees. These investigations involve both proactive and reactive activities designed to maintain the Department's integrity and to protect its resources from fraud, waste and/or program abuse. The investigative organization handles all allegations of misconduct concerning the IRS Commissioner, Senior Deputy Commissioner, IRS Office of Inspection employees, and other cases where the independence of the Office of Inspection may be questioned. In addition, all allegations of misconduct involving IRS executives, managers, and any allegations of significant or notorious matters are investigated by this organization. The organization also promotes integrity awareness among Departmental employees and participates in joint fraud prevention and detection surveys with the audit organization.

The Assistant Inspector General for Policy, Planning, and Resources develops overall OIG policy and procedures for the performance of audit, investigative, oversight, and administrative activities. A management information system is maintained and ADP support to audits, investigations, and oversight is provided. This organization is also responsible for all external reporting to the Congress and the PCIE and for internal reporting to the Secretary. Program and budget formulation and execution, fiscal, personnel management, and administrative support services are provided for the OIG.

The Assistant Inspector General for Oversight and Quality Assurance provides a centralized OIG management focus on the oversight and quality review functions required by the Congress. The Quality Assurance Program evaluates the effectiveness and efficiency of the OIG's audit and investigative programs. The Oversight Program reviews and monitors the operations, special programs, planning strategies, implementation techniques and accomplishments of each law enforcement bureau's internal affairs or inspection operation, and is responsible for oversight of the internal audit and investigative programs of the IRS. This organization is also responsible for conducting special studies, reviews, and/or analyses which crosscut areas of OIG responsibility.

Request Highlights

The FY 1991 budget request totals $21.3 million which is a net increase of $6.3 million over the proposed authorized level in FY 1990. The FY 1990 budget was a roll up of funds identified by and transferred from other Treasury elements in support of the internal audit functions existing prior to the establishment of the statutory OIG. The principal elements for the requested increase are:

(1) $1.0 million for an increase related to maintaining current level (MCL) funding adjusted for inflation and for areas of expense which funding was not provided for by other Treasury elements;

(2) $0.5 million for an increase related to pay raise increases;

(3) $0.2 million program reduction to offset pay costs;

(4) $0.3 million increase related to the base transfer from the Internal Revenue Service;

(5) $2.6 million and 30 FTE's for a program increase related to the newly created Office of Thrift Supervisior;

(6) $0.4 million and 8 FTE's for a program increase related to all areas associated with investigative work;

(7) $1.0 million for an increase related to ADP support;

(8) $0.3 million for an increase related to quality assurance, management resources, and additional space needs;

(9) $0.2 million and 3 FTE's for an increase related to internal audit functions; and

(10) $0.1 million for an increase related to a one-time personnel compensation reduction.

Department of the Treasury
OFFICE OF [THE] INSPECTOR GENERAL

Federal Funds

General and special funds:

Salaries and Expenses

For necessary expenses of the Office of [the] Inspector General in carrying out the provisions of the Inspector General Act of 1978, as amended[, $13,605,000]; hire of passenger motor vehicles; not to exceed $1,541,000 to remain available until expended, for systems modernization requirements; $21,296,000. (Treasury Department Appropriations Act, 1990.)

Explanation of Appropriations Language Changes for Fiscal Year 1991

In FY 1991, the Office of the Inspector General will require the lease of automobiles to carry out its operations in field offices. The lease of a new central computer will occur in mid FY 1990. Any delay in this contract could effect the funding related to the systems modernization requirements in FY 1991; therefore, funds have been requested to remain available until expensed.

Office of Inspector General, Salaries and Expenses

SELECTED WORKLOAD DATA

Activities and Principal Workload Factors		1989 Actual	1990 Authorized	1991 Estimate	Percent Increase or Decrease (1991 over 1990)
Audit:	Audits started				
Administrative	10/01/88 - 04/15/89	39			
Statutory	04/16/89 - 09/30/89	72	162	164	1%
Total		111	162	164	
Investigation:	Cases initiated				
	In-House	43	70	95	36%
	Referred to Bureaus	80	70	70	
Total		123	140	165	
Office of Thrift Supervision:					
	Audits	0	0	15	
	Investigations	0	0	18	
Total		0	0	33	

Office of Inspector General, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full Time Equivalent Positions)

	1/ Actual 1989	Estimated 1990	Estimated 1991	Increase/Decrease for 1991 Total Changes	Program Changes	Other
Statutory executive positions.....	2	6	9	3	0	3
Policy/program professional staff...	71	204	242	38	36	2
Administrative staff.....	2	10	10	0	0	0
Secretarial and clerical.....	12	32	37	5	5	0
Crafts and custodial.....	0	0	0	0	0	0
Subtotal.....	87	252	298	46	41	5
Part-time & temporary Full Time Equialent positions.....	1	1	1	0	0	0
Total Full Time Equivalent positions	88	253	299	46	41	5

1/ Reflects the Statutory Office of Inspector General effective April 16, 1989.

Office of Inspector General, Salaries and Expenses

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to Congressional Action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the Office of Inspector General proposes the following adjustments in FY 1990 spending ($000):

Object Classification	President's Budget (Enacted)	+ or - Congressional Action	IRS Transfer	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9 Total Pers. Compensation...	9,020	(119)	792	908	10,601
12.0 Total Benefits.....	1,350	0	205	236	1,791
13.0 Benefits Former Personnel..	0	0	0	0	0
21.0 Total Travel.....	544	0	96	(95)	545
22.0 Total Transportation.....	1	0	120	18	139
23.1 GSA Rent.....	500	0	70	120	690
23.2 Other Rent.....	0	0	0	0	0
23.3 Total Comm. & Utilities....	116	0	34	(74)	76
24.0 Total Printing.....	16	0	3	14	33
25.0 Total Other Services.....	2,000	0	80	(1,114)	966
26.0 Total Supplies.....	48	0	10	(13)	45
31.0 Total Equipment.....	10	0	147	0	157
TOTAL.....	13,605	(119)	1,557	0	15,043
Activity					
Office of Inspector General.....	13,605	(119)	1,557	0	15,043
TOTAL.....	13,605	(119)	1,557	0	15,043

Office of Inspector General, Salaries and Expenses

Explanation of Congressional Action

G-R-H sequestration (P.L. 99-177, 100-119, 101-039) reduced the Office of Inspector General's FY 1990 funding level by $119,000. This reduction was taken in personnel compensation.

Explanation of IRS Transfer

Previous levels of OIG appropriations were insufficient to provide adequate resources to investigate allegations of improprieties by the Internal Revenue Service (IRS) executives and employees in situations where the independence of IRS Inspection could be questioned, and to provide effective and ongoing oversight of the Inspactions function. Consequently, the IRS and OIG jointly propose a base transfer of 16 FTE's and $1.6 million from the IRS to the OIG for those purposes. In addition to this transfer, 5 FTE and $.3 million will be transferred in FY 1991 for an annualized total of 21 FTE and $1.9 million. These levels of resources will be dedicated to IRS issues.

Explanation of Reprogrammings

When resources were being developed for the FY 1990 President's Budget, funding was provided for less than 237 FTE ceiling based on then current cost estimates for existing staff and identified vacancies. In addition $1,989,000 was provided for increased ADP requirements for the higher staffing of the statutory OIG. During the FY 1991 Budget process the FY 1990 column was reprogrammed to cover the deficiency in FTE, transportation, GSA space rental, and printing funding. This reprogramming removed funds identified for ADP, Travel, communications & utilities, and supplies to cover these deficiencies.

Office of Inspector General, Salaries and Expenses

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

In FY 1991, funding requirements for the Office of Inspector General are projected to be $21,296,000. Total increases of $6,338,000 are offset by $204,000 in program reductions for the absorption of pay increases and inflation, resulting in a net increase of $6,134,000 over the FY 1990 funding level of $15,162,000. In addition, an increase of 46 FTE positions over the FY 1990 staffing level are included for: the annualization of the IRS transfer (5 FTE); the Office of Thrift Supervision program increase (30 FTE); the Investigations program increase (8 FTE); and the Audit program increase (3 FTE).

PROGRAM CHANGES

	Pos.	Amount
Total Requested Program Changes.....	41	$4,394,000
1. Office of Thrift Supervision.....	30	$2,578,000

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 moved a portion of the independent thrift regulation functions performed by the Federal Home Loan Bank Board into the Treasury's newly created Office of Thrift Supervision (OTS). By virtue of its placement, OTS will require audit and investigative coverage by the Department's Office of Inspector General (OIG). However, no resources were provided directly by the legislation to support the audit and investigative responsibilities to be assumed by the OIG for OTS.

An additional 30 positions are requested for OIG's OTS responsibilities. The positions would enable the OIG to conduct audits of OTS supervisory functions and institute a proactive and reactive investigative function. Recent problems in the thrift industry clearly indicate the need for an active, independent regulatory function. OTS estimates it will consist of approximately 3,800 employees located in Washington, D.C. and 12 District Offices. OTS will supervise approximately 3,000 savings and loan institutions of which more than 1,400 are considered marginal, distressed, or insolvent but still operating. Therefore, it is imperative that OTS receive nationwide audit coverage to assist them in identifying the most effective and efficient methods to ensure the safety and soundness of the savings and loan (S&L) industry.

Data available indicated that the primary reasons for S&L failures are mismanagement and the infusion of corrupt individuals into positions of authority or ownership within S&L's. As a result, we will emphasize audit coverage of supervisory responsibilities and the methods employed to prevent and detect mismanagement and corruption. For example, OTS is responsible for (1) approving or denying applications for new charters, branches, capital or other changes in the S&L structure; (2) examining the S&L's to ensure the safety and soundness of the institutions; (3) requiring the S&L's to maintain a high level of compliance with the law; and (4) issuing rules and regulations concerning S&L operating, investment, and lending practices. OIG audits will focus on the effective implementation of these responsibilities.

Additional investigative resources are required based on the current number (eleven), sensitivity, complexity and geographical dispersion of active cases being transferred to the Treasury Investigations from the former FHLBB OIG for analyses and investigation. Furthermore, the projected level of investigative activity for FY 1990 will at least double. This is fully expected based on the vulnerable nature of the OTS work environment, widespread institutionalized misconduct, and criminal activities which have occurred in the S&L industry. There is a high degree of potential for violations of Title 18, including bribery, conflict of interest and acceptance of gratuities. Currently, both the public and the Congress have significant interest in the S&L industry. This will require rapid and efficient investigative responses to any credible allegation directed at the regulator - OTS.

The projected 30 staff years for OTS are based on the need to establish an effort in an area which has had little OIG coverage in the past.

The Inspector General for the Federal Home Loan Bank Board advised the OIG that virtually no audit work had been conducted in the areas which comprise OTS since 1984. This condition, coupled with the known problems which have led to the S&L crisis, dictate a critical need for OIG coverage to help management ensure the economy, efficiency, and effectiveness of its programmatic activities, as well as proactive and reactive efforts to prevent and detect fraud, waste, and abuse.

The resources related to Office of Thrift Supervision requested increase are as follows:

Description	Pos. Number	Amount
Auditors	18	$704,031
Investigators	5	211,950
Administrative Support	4	157,633
Secretarial Support	3	70,381
Total, Salaries	30	1,143,995
Other Personnel compensation		144,805
Benefits (17%)		219,100
Permanent Change of Station moves		400,000
Travel and Transportation of Persons		144,000
GSA Space Rental		133,000
Other Rent, Communications, & Utilities		48,100
Printing and reproduction		4,000
Other Services		116,000
Supplies and Materials		15,000
Equipment		210,000
Total, requested increase	30	2,578,000

	Pos.	Amount
2. Investigations.....	8	$430,000

The OIG is responsible for conducting and supervising investigations of programs and operations within the Department. In all matters relating to investigative work, the organization must be free, both in fact and in appearance, from impairments to independence. The OIG's goal is to conduct all investigations of allegations of waste, fraud and abuse which fall within its realm of responsibility, including cases involving senior Treasury officials and cases of notoriety. Additionally, the OIG plans to implement a more aggressive proactive program to address integrity and fraud issues that would otherwise be undetected and to expand the integrity awareness program to include Treasury employees in field offices. The OIG also plans to implement a bribery awareness program.

An additional 8 positions are requested for the Assistant Inspector General for Investigations. These positions would enable the OIG to conduct 25 percent of the investigations now being referred to the law enforcement bureaus (LEB's) internal affairs or inspection units. Investigations of senior officials or sensitive Treasury issues by OIG agents, help to ensure and maintain the independence and objectivity of the OIG operation. These positions would also enable the Office to more effectively respond to increased referrals from our audit organization and to initiate proactive investigations such as emergency salary payment fraud as well as additional reviews of contracts with indicators of fraud.

As a result of the increase in investigative resources, the Office anticipates an increase in monetary recoveries from investigations including fines, penalties, restitutions and other monetary returns to the Department as a result of the adjudication of OIG cases. Additionally, the Office would be able to increase timeliness of investigations and overall caseload. Increased case activity and fraud and bribery awareness will have a deterrence effect, decreasing opportunities for fraud and abuse by Treasury employees and contractors.

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The resources related to Investigations requested increase are as follows:

Description	Pos. Number	Amount
Special Agents	9	$230,000
Clerk Typist	1	16,000
Total, Salaries	10	246,000
Less 25% lapse	-2	-61,000
Other Personnel compensation		24,000
Benefits (17%)		35,000
Permanent Change of Station moves		55,000
Travel and Transportation of Persons		2,000
GSA Space Rental		39,000
Other Rent, Communications, & Utilities		24,000
Other Services		17,000
Supplies and Materials		4,000
Equipment		45,000
Total, requested increase	8	430,000

Office of Inspector General, Salaries and Expenses

	Pos.	Amount
3. ADP Resources.....	0	$974,000

The goal of the OIG is to provide its personnel with independent computing resources capable of supporting audits and investigations while providing management with information to ensure resources are being used effectively. This goal is to be realized by providing end users with microcomputers as productivity tools to support audit and investigative fieldwork, and centralized processing capabilities with associated telecommunications needs to support management information systems, nationwide office automation, and large scale analyses of data. Our ADP systems analysis capabilities must be able to respond to the complex systems being developed within the various Treasury bureaus.

The OIG has the primary responsibility for ensuring a comprehensive program for the maintenance of integrity, and to eliminate fraud, waste, and mismanagement within the Treasury Department. The OIG has a small minicomputer for central processing and only 40 PC microcomputers for end-user computing. ADP resources are being requested amounting to $0.9 million which will provide for contract lease costs to replace the existing centralized computer ($.5 million); obtain microcomputer workstations to support end-user computing and to provide access to the OIG's central computer and other computer systems ($.2 million); and to provide the necessary maintenance and support to operate the system ($.2 million). In recent capacity and performance monitoring on the OIG's central minicomputer, it was determined that computer capacity was insufficient to meet OIG requirements for 119 user accounts, much less accommodate an additional 140 user accounts which were added due to the consolidation of audit organizations within the statutory OIG. In addition, the replacement of outdated, obsolete non-intelligent workstations with desktop and laptop microcomputers will improve audit and investigative productivity and will be used to conduct fieldwork at auditee locations.

The OIG expects its productivity and efficiency to increase with the upgrading of the system and the acquisition of microcomputers. Audit and investigations annually report savings to the department of millions of dollars.

The resources related to ADP resources requested increase are as follows:

Description	Amount
Other Rent, Communications, & Utilities	$624,000
Other Services.....	150,000
Equipment.....	200,000
Total, requested increase.....	974,000

	Pos.	Amount
4. Policy, Planning, & Resources/and Other Program Areas.....	0	$332,000

Executive Order 12564 established the goal of a drug-free Federal work place. Employees within the OIG have positions which are either responsible for law enforcement or require a high level of fiduciary trust. For these reasons the OIG must ensure that these employees are not using illegal drugs on or off-duty.

The OIG has the responsibility for conducting and supervising audits and investigations within the Department and for oversight of the audit programs of IRS and the inspection/investigation programs of the LEB's and IRS. The OIG is also responsible for responding to the requirements of the PCIE and GAO, including establishment of a quality assurance program. In addition, the OIG must provide adequate facilities and services in support of its mission.

These funds would enable the OIG to implement the Departmental Drug Testing Program developed in response to Executive Order 12564 ($13 thousand). These funds would also enable the OIG to implement the provisions of Treasury Order 114-01 which require reimbursement to Treasury Bureaus for individuals who are detailed to the OIG. We envision these details would help us fulfill our quality assurance responsibilities by drawing together multidisciplinary teams ($15 thousand). Additionally, these funds would enable the OIG to fund space rental costs for already onboard OIG employees at various other bureau locations whose current space needs are being absorbed by those bureaus ($244 thousand). Finally, these funds would enable the OIG to fund certain administrative costs associated with the increased staff created by the consolidation into a statutory OIG which were not fully identified and provided for during preparation of the FY 1990 base ($60 thousand).

The OIG would be able to meet its basic operating needs in support of its FTE and would be able to carry out its mandated responsibilities for a drug-free work place and conduct of a quality assurance program.

The resources related to Policy, Planning, & Resources requested increase are as follows:

Description	GS/GM Grade	Pos. Number	Amount
Reimbursable Details.....			$15,000
GSA Space Rental.....			244,000
Printing and Reproduction.....			45,000
Other Services.....			26,000
Equipment.....			2,000
Total, requested increase.....			332,000

Office of Inspector General, Salaries and Expenses

	Pos.	Amount
5. Audit.....	3	$165,000

The internal audit function must address significant Treasury issues by conducting audits of critical importance, focusing in areas of cost reduction, revenue collection, and programs of critical national importance such as drug interdiction and bank supervisory functions.

An additional 3 auditor positions are requested for the Assistant Inspector General for Audit. The positions would enable the OIG to conduct audits in support of our long-range goals. Recent problems in the banking industry, most notably, but not limited to, the thrift industry, clearly indicates the significance of the banking agencies supervisory roles and responsibilities. The increase in positions will enable Audit to address more issues regarding the manner in which Office of the Comptroller of the Currency conducts its bank supervisory functions. In addition, the Financial Management Services (FMS) and the Bureau of the Public Debt (BPD) are redesigning major government-wide accounting and financial management systems. Among the systems being redesigned are the government's central accounting system which accounts for a multi-trillion dollar budget, electronic certification system through which billions of dollars of expenditures will be authorized for payment by more than 7,000 dispersed certifying officers, a telecommunications system through which trillions of dollars in government collections and disbursements will flow, and the central accounting system for the government's public debt. Increased audit involvement is critical to ensure that these systems are properly developed, contain the necessary levels of internal control and audit trails, are implemented properly, and are operating effectively and as intended. Audits also need to be made of major contracting activities which will be needed to support the design and implementation of these systems.

The additional positions will enable the Office to maintain baseline audit service to all Treasury Bureaus as well as enhance audit coverage of critical importance to the Department and its major policy and program initiatives.

The resources related to Audit requested increase are as follows:

Description	Pos. Number	Amount
Auditor	3	$93,000
Secretary	1	22,000
Total, Salaries	4	115,000
Less 25% lapse	-1	-28,000
Benefits (17%)		15,000
Travel and Transportation of Persons		7,000
GSA Space Rental		15,000
Other Rent, Communications, & Utilities		5,000
Other Services		3,000
Supplies and Materials		2,000
Equipment		31,000
Total, requested increase	3	165,000

	Amount
6. Program increase to restore one-time personnel compensation reduction.....	$119,000

In FY 1990 a one-time reduction was taken in personnel compensation. This increase restores the reduction which will enable the OIG to maintain the continued level of expertise needed to ensure program continuity and not jeopardize program activities.

7. Program reductions to offset pay costs and other absorptions.....	($204,000)

To offset 50% of the cost for the proposed 3.5% pay raise ($144,000) and the EX/SES pay raise ($44,000) being absorbed in FY 1991 and under funded inflationary costs ($16,000) it is necessary to reduce planned permanent change of station (PCS) moves.

Office of Inspector General, Salaries and Expenses

OTHER CHANGES

	Amount
Total Other Changes	$1,859,000
Adjustments necessary to maintain current levels	$1,540,000
1. Annualization of January 1990 Pay Act Increases	$104,000

This amount represents one-quarter of the FY 1990 base amount for the January 1990 pay raise which was effective for three-quarters of the year in FY 1990. The amount includes the cost of salaries and benefits. The computation was based on the FY 1990 financial plan for salaries and benefits multiplied by 3.6% for one-quarter of the year.

2. Increased Cost for Proposed FY 1991 Pay Raise	$288,000

This amount reflects the cost of salaries and benefits for three-quarters of the year for a proposed 3.5% pay raise. This computation was based on the FY 1990 financial plan for salaries and benefits (exclusive of EX/SES compensation) multiplied by 3.5% for three-quarters of the year.

3. Increased Costs for EX/SES Pay Raise (P.L. 101-194)	$88,000

This amount reflects the cost of salaries and benefits for increases pursuant to P.L. 101-194. The amount was derived by calculating the pay raise for SES and EX level authorized positions. Benefits of 17% were also included.

4. Increased Cost for Additional Compensable Day	$44,000

This amount reflects the increased cost of salaries and benefits for one additional compensable day in FY 1991. The amount was derived by dividing the FY 1990 personnel compensation (less the IRS transfer) $9,799,000 by 260 work days and adding benefits of 15%.

		Amount
5.	Increased Cost of Health Insurance.....	$5,000

The Office of Personnel Management (OPM) projects a general increase of 15% for agency contributions to employee health benefits. This factor has been applied to the FY 1990 base of $32,000.

6.	Other Benefits.....	$19,000

For all other categories in this object class, which includes PCS Moves, Uniform Allowance, Quarters Allowance, Overseas Housing and Utilities, and Life Insurance, the deflator of 4.2% has been applied to the FY 1990 base of $444,000.

7.	Increased Cost of Travel and Transportation of Persons.....	$29,000

GSA currently estimates a 6.5% agency-wide increase. This factor has been applied to the FY 1990 base of $444,000.

8.	Increased Cost of Transportation of Things.....	$1,000

The deflator of 4.2% has been applied to FY 1990 base of $19,000 for Transportation of Things, Transportation of Household Goods and Freight Costs.

9.	Increased Cost of Rent, Communications, and Utilities.....	$886,000

This represents a net adjustment consisting of a 4.4% increase applied to the FY 1990 base of $620,000 for GSA rent costs, an increase of $191,000 for Digital Telecommunications System (DTS), an increase of $101,000 for Consolidated Data Network (CDN), an increase of $151,000 for FTS, and an increase of $50,000 for increased Postage costs. For the other categories in this object class, including Telephones, Telegraph, and Teletype, National Communications System, and Equipment Leasing and Rentals, an increase of 4.2% has been applied to the FY 1990 base of $43,000. The balance requested is to fully fund space costs for on-board employees.

		Amount
10.	Increased Cost of Printing and Reproduction.....	$2,000
	The Government Printing Office (GPO) projects a 7% increase for the GPO and Commercial printing services. This increase has been applied to the FY 1990 base of $30,000.	
11.	Increased Cost of Other Services.....	$72,000
	Increases reflect the conversion costs to the new payroll system in FY 1991 ($35,000); for all other categories in this object class, which include Contracts, Maintenance of Equipment, Other Miscellaneous Services, Services of Other Government Agencies, and Health Services an increase of 4.2% has been applied to the FY 1990 base of $872,000.	
12.	Increased Cost of Supplies and Materials.....	$2,000
	GSA currently estimates a 6.5% agency-wide increase. This factor has been applied to the FY 1990 base of $21,000. Major subscription service vendors indicate, in general, foreign subscriptions will increase 10% and domestic publications 8% in FY 1991 over FY 1990 base of $14,000.	
Transfers.....		$319,000
1.	Internal Revenue Service -- FY 1990 Annualization.....	$319,000
	This transfer is the annualization for the full year cost of the FY 1990 transfer.	

Standard Classification Schedule
(Direct Obligations Only, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease From FY 1990
Total number of permanent positions	108	270	316	46
Full-time equivalent (FTE) workyears	88	253	299	46
Object Classification				
Personnel compensation:				
Permanent positions	3,801	10,424	12,754	2,330
Positions other than permanent	8	25	25	0
Other personnel compensation	73	106	144	38
Special personal services payments	0	46	83	37
Total personnel compensation	3,882	10,601	13,006	2,405
Personnel benefits	622	1,791	2,186	395
Travel and transportation of persons	179	545	808	263
Transportation of things	13	139	343	204
Rents, communications and utilities:				
Rental payments to GSA	0	690	1,536	846
Rental payments to others	0	0	0	0
Other rents, communications, and utilities	251	76	1,272	1,196
Printing and reproduction	25	33	84	51
Other services	544	966	1,349	383
Supplies and materials	91	45	67	22
Equipment	386	157	645	488
Total obligations	5,993	15,043	21,296	6,253
Unobligated balance lapsing	58	0	0	0
Total actual obligations, proposed authorized level, and budget estimate	6,052	15,043	21,296	6,253

Office of Inspector General, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS

	1989 Actual	1990 Authorized	1991 Estimate
Executive Level 4	0	1	1
Senior Executive Service Level 5	0	0	1
Senior Executive Service Level 4	1	1	0
Senior Executive Service Level 3	2	2	4
Senior Executive Service Level 2	0	1	2
Senior Executive Service Level 1	1	1	1
Subtotal	4	5	8
GS/GM-15	19	28	29
GS/GM-14	30	26	28
GS/GM-13	70	70	75
GS-12	49	49	60
GS-11	7	7	14
GS-10	1	1	1
GS-09	20	21	27
GS-08	2	2	3
GS-07	32	33	42
GS-06	9	9	9
GS-05	13	13	13
GS-04	4	4	5
GS-03	1	1	1
Subtotal	257	264	307
Ungraded	0	0	0
Total, Permanent positions	261	270	316
Unfilled positions, end-of-year	(24)	(17)	(17)
Total, permanent employment, end-of-year	237	253	299

TUESDAY, FEBRUARY 27, 1990.

UNITED STATES SECRET SERVICE

WITNESSES

JOHN R. SIMPSON, DIRECTOR, U.S. SECRET SERVICE
STEPHEN E. GARMON, DEPUTY DIRECTOR
DAVID C. LEE, ASSISTANT DIRECTOR ADMINISTRATION
GUY P. CAPUTO, ASSISTANT DIRECTOR PROTECTIVE OPERATIONS
TERRENCE SAMWAY, ASSISTANT DIRECTOR PROTECTIVE RESEARCH
GARRY M. JENKINS, ASSISTANT DIRECTOR INVESTIGATIONS
DON A. EDWARDS, ASSISTANT DIRECTOR TRAINING
FRANK PALMER, CHIEF FINANCIAL MANAGEMENT DIVISION
DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT, DEPARTMENT OF THE TREASURY

INTRODUCTION

Mr. ROYBAL. The committee will come to order.

The committee is in session this morning to hear from the United States Secret Service with regard to their budget for 1991.

Mr. Simpson, will you proceed in any manner that you desire.

Mr. SIMPSON. Thank you, Mr. Chairman. Good morning to the other Members of the committee.

With your permission, sir, we would like to place in the record our long statement and if you would be so kind as to listen to our short statement, I would appreciate it.

Mr. ROYBAL. All right. Your statement in full will be included in the record at this point.

[The prepared statement of John R. Simpson follows:]

Department of the Treasury

U. S. SECRET SERVICE

Introductory Statement of John R. Simpson

Director, U. S. Secret Service

For Presentation to the Subcommittees on Appropriation

Mr. Chairman and members of the Committee, I am pleased to be here today to discuss the Fiscal Year 1991 appropriation request of the United States Secret Service.

With me today, Mr. Chairman, are the Deputy Director, Mr. Stephen E. Garmon, Mr. David C. Lee, Assistant Director for Administration, Mr. Guy P. Caputo, Assistant Director for Protective Operations, new staff member Mr. Terrence Samway, Assistant Director for Protective Research, Mr. Garry M. Jenkins, Assistant Director for Investigations, Mr. Don A. Edwards, Assistant Director for Training, and Mr. Frank Palmer, Chief of our Financial Management Division. Since this is the first appearance of Mr. Samway before this Committee, a biographical sketch is inserted for the record.

BIOGRAPHY

ASSISTANT DIRECTOR H. TERRENCE SAMWAY

OFFICE OF PROTECTIVE RESEARCH

UNITED STATES SECRET SERVICE

H. Terrence Samway was appointed Assistant Director of the Office of Protective Research on September 9, 1989. Prior to this assignment, Mr. Samway served as Deputy Assistant Director of the Office of Protective Operations/White House.

Terrence Samway was born in Bangor, Maine, on January 20, 1943. He received a bachelor of arts degree from Merrimack College in North Andover, Massachusetts in 1966. Three years later, he graduated with a Doctor of Laws degree from Suffolk University's Law School in Boston, Massachusetts.

Mr. Samway was appointed a Special Agent of the United States Secret Service at the Boston Field Office in 1971. As a special agent, Mr. Samway was assigned to the Office of Training, the Office of Chief Counsel, the Technical Security Division, and the Presidential Protective Division.

Terrence Samway was promoted to Assistant to the Special Agent in Charge of the Dignitary Protective Division in 1979. Two and one half years later, Mr. Samway was selected to serve as Special Agent in Charge of the Candidate Nominee Protective Division. In 1984, he was promoted to Deputy Assistant Director of the Office of Protective Research. Four years later, Mr. Samway accepted a position as Deputy Assistant Director of the Office of Protective Operations/White House Security where he remained until his current appointment.

(Fiscal Year 1991 Appropriation Request)

The pending appropriation request for Fiscal Year 1991 totals $397,640,000 and 4,531 FTE positions. This is a net increase of $31,378,000 and 95 FTE positions over the Fiscal Year 1990 post-sequester funding level of $366,262,000. This request reflects program increases of $15,967,000, funds to cover cost increases and maintain our current operating level of $24,482,000, and a reduction of $9,071,000 for non-recurring costs. The program increases will provide for the safety of our protectees, enforce our investigative jurisdictions, allow improvements in our daily operations, enable technology enhancements, allow for major renovations, and provide start-up funds for the 1992 Presidential Campaign.

(125th Anniversary of the Secret Service)

Before I discuss our budget request, I would like to mention an important milestone. On July 5, 1990, the Secret Service will commemorate 125 years of loyal, selfless dedication to the American people. The Service was created three months after the Civil War ended. At its inception, it was comprised of a Chief and ten "operatives." Its sole responsibility at that time was to suppress the rampant counterfeiting of U.S. currency. During the Service's

first four years, approximately 800 counterfeiters were arrested. That figure increased to 7,031 during this last four years, an increase of almost 900 percent. During this same recent four year period, seizures of U.S. counterfeit currency totalled $286.4 million, which clearly illustrates that counterfeiting is an ongoing problem.

Following the assassination of President McKinley in 1901, the Secret Service began providing Presidential protection. Since then, the Service's protective responsibilities have increased dramatically.

The tragic assassination of President John F. Kennedy on November 22, 1963, led to monumental changes for the Service. As a result of this incident, the "Warren Commission" recommended the following: an increase in the number and training of Special Agents; the expansion of protective intelligence; and the acquisition of sophisticated technical security, ADP, and communications equipment.

Subsequent assassination attempts directed towards then Presidents Ford and Reagan demonstrated the need to continually increase our capabilities in order to meet the increasing threats to our protectees. Also, the rise in terrorism, the rapid growth in our mandated investigative jurisdictions, and the increased mobility of our protectees have necessitated expansion far beyond the Service's

humble beginnings and resulted in a budget that is sometimes "incident driven" but more often serves to prevent incidents. I cite the recent Drug Summit in Colombia as an example of both.

The Service's investigative mission has grown at a rate comparable to its protective mission. From the original mandate to protect only this nation's currency, have come new responsibilities reflecting the nation's increasingly complex, highly technical economy. Today, that includes fraud associated with access devices such as credit cards, computer fraud, the fraud and forgery of government securities, fraud associated with the electronic fund transfer system of the U.S. Treasury, and the fraudulent use of identification documents and food coupons. In addition, the Service is mandated to investigate certain criminal irregularities that adversely impact on the Federal Deposit Insurance Corporation (FDIC). Also, the increased ties between drugs and the Service's traditional violations of counterfeiting and false identification, is a major factor contributing to the growth of our investigative mission.

(Protection)

Although I've given you only a brief historical overview, I would now like to address the Service's FY 1991 Budget Request.

The effective performance of our protective mission remains a primary goal of our organization, and protective activities continue to be a major factor in our Budget Requests.

Permanent Protection

In Fiscal Year 1989, the Secret Service's permanent protectees mandated by Title 18 SEC 3056, traveled to 2,685 domestic and 215 foreign stops during Fiscal Year 1989.

With a new President in office, Presidential travel increased by 100 percent over Fiscal Year 1985 and by 227 percent over Fiscal Year 1981. President Bush traveled to the Far East in February, 1989, throughout Europe in May, and again in July for an Economic Summit. At the same time, Vice President Quayle traveled extensively throughout South America, Central America, the Far East, and the South Pacific.

During Fiscal Year 1989, the new former President and Mrs. Reagan remained active, traveling protectees; as did former President Carter, whose level of travel increased in response to world events. Travel by former President Ford, Mrs. Ford, and Mrs. Johnson continued at prior levels.

This fiscal year and next, the off-year Congressional and gubernatorial elections will prompt additional travel by President Bush. So far this fiscal year, the President has attended the Malta Summit and the Colombian Drug Summit. In July, he will host world leaders at an Economic Summit in Houston, Texas. Also, a tentative visit of General Secretary Gorbachev is anticipated, possibly during the month of June. Travel plans for Fiscal Year 1991 include an overseas Economic Summit and a possible Soviet Summit. Vice President Quayle has traveled to Central America and plans trips to South America and other tentative overseas locations.

During Fiscal Year 1991, the planning of candidate protection details and security arrangements for the two national conventions will commence. Our FY 1991 request contains $5.9 million to accomplish this.

The ever-increasing threat of world-wide terrorism poses significant problems for the Service in its efforts to carry out its protective mission. The disruptive threats and deadly acts carried out by State governments such as Libya and Iran and by other organizations which seek to affect world decisions through terrorist activity makes the Service's mission that much more costly in terms of personnel and other resources, while at the same time making it that much more critical that the Service be successful in its endeavors.

The more recent phenomenon of narco-terrorism, where you have organized criminal elements actually declaring war on a nation and its duly elected government just further exacerbates an already deadly situation. The efforts exerted in seeking to ensure the President's ability to safely travel to Colombia, carry out his mission, and safely return to the U. S. were immense. Sadly, it appears that this is only an indication of what the Service is going to face more routinely in the future as it carries out its varied responsibilities.

Again, this marked increase in protective activity has not occurred without a significant impact on the Service's resources.

Dignitary Protection

Last fiscal year, foreign dignitaries visited the United States in record numbers to meet the new administration. Foreign dignitary visits still continue at significant levels and averaged 5.5 days each in Fiscal Year 1989. These visits demand a labor intensive approach to provide an atmosphere conducive to foreign policy development. Dignitaries who attended the United Nation's 44th General Assembly required 24 security details, and, in some cases, extra security planning. The Service anticipates the need for additional security

details for the United Nation's 45th General Assembly this Fall. These details are coordinated by our New York Field Office.

This July, Heads of State from Canada, England, France, Italy, Japan, and West Germany will participate in an Economic Summit to be held in Houston, Texas. We expect an increase in visits from the new leaders of Eastern Europe who will meet with members of the new administration to discuss economic matters. We also anticipate another visit by General Secretary Gorbachev this year.

During Fiscal Years 1990 and 1991, protection of foreign VIP's will be generated by: the United Nations General Assembly, a Caribbean Conference in Miami, the Turner Goodwill Games, and the International Monetary Fund Meeting.

Changing world political events will continue to play a major role in determining the number of visits by foreign dignitaries, and the subsequent impact upon the Secret Service.

Property Protection

In Fiscal Year 1989, the Service implemented protection for a new President, Vice President, and their families at their primary and secondary residences.

Office of Inspector General, Salaries and Expenses

DETAIL OF AVERAGE GRADES AND SALARIES

	1989 Actual	1990 Authorized	1991 Estimate
Average EX/ES salary.....	$73,725	$79,105	$93,386
Average GS/GM grade.....	11.08	11.15	11.04
Average GS/GM salary.....	$40,646	$41,744	$43,216
Average salary of ungraded positions.....	$0	$0	$0

Security was enhanced at President Bush's residence in Kennebunkport, Maine. At the same time, security requirements were implemented at the new primary residence of Former President and Mrs. Reagan in Bel Air, California.

Funds are included to allow the Service to continue to work to improve necessary security systems at the White House Complex and the Naval Observatory. This budget request also contains funding for renovating the Command Post at the Naval Observatory.

Screening persons in the vicinity of selected Secret Service protectees via magnetometer units continues to be an effective program for uncovering weapons and deterring actions by potentially harmful individuals. A total of 207 legal guns, 5 illegal guns, and 948 miscellaneous weapons (including mace, knives, razor blades, starter pistols), were detected in Fiscal Year 1989. A total of 590 legal guns, 2 illegal guns, and 406 miscellaneous weapons were detected during the first four months of Fiscal Year 1990.

Last fiscal year, the total number of visitors processed at the White House was 2,237,091; an increase of 53 percent over Fiscal Year 1988. Essential support was provided by our Canine Unit which performed 79,910 searches during Fiscal Year 1989.

Uniformed Division Officers made 506 arrests last fiscal year, and they effected 271 arrests during the first four months of this fiscal year. The Uniformed Division Foreign Missions Branch provided security for 446 foreign missions and embassies in Fiscal Year 1989, a slight increase over Fiscal Year 1988.

Protective Research

Technical Security

Security enhancements to personally-owned property of President Bush evolved during Fiscal Year 1989. The Service began implementation of the White House Access Control System, and initiated a number of programs which included advanced x-rays, armored vests, and latent fingerprint enhancements that technically enhance the protective and investigative capabilities of the Service. This fiscal year, the Service will continue to upgrade major technical security systems and provide permanent, aesthetic, crash-resistant bollards on the south side of the White House perimeter.

In order to provide the most up-to-date protective fleet possible, a progressive state-of-the-art armoring program for new

limousines was developed. Work is progressing on the development of the next generation of armored vehicles. Additional funding is requested in FY 1991 for this purpose.

Information Resources

The Service provided successful voice privacy communication support for the Presidential Inauguration in Fiscal Year 1989. Installation of the Nationwide Communications Network was completed, and data center operations were moved to the new Security/Computer Center building at the James J. Rowley Training Center.

This fiscal year, we will provide communications support for planned and special protection events (Soviet visit, Economic Summit, etc.). In Fiscal Year 1991, the Nationwide Communications Network will be expanded to support foreign field offices. The Service must be on the cutting edge of this technology to maximize its benefits as they relate to our responsibilities and to remain ahead of our adversaries. Our FY 1991 request includes additional funding to upgrade the performance and security of our communications network.

Intelligence Data

During Fiscal Year 1989, the Service developed a computerized data base to analyze terrorist threat information. The Mental Health

Liaison Project was expanded to effect improved communications between our field offices and the mental health community.

Investigative Activity

There were 237,112 case receipts and pending investigations last fiscal year in the areas of access device fraud, electronic fund transfer fraud, computer fraud, food coupon fraud, counterfeiting, and check and bond forgery. An estimate of cases to be received in Fiscal Year 1990 exceeds our Fiscal Year 1989 figure by 13 percent. These cases involve multiple financial transactions and suspects, encounters with sophisticated technology, and drugs.

Fraud Jurisdiction

In Fiscal Year 1989, the Service suppressed an estimated $81 million in access device and computer fraud. We conducted 4,259 access device and computer fraud investigations, an increase of 33 percent over Fiscal Year 1988. The total number of arrests was 1,843. We continued to review and evaluate computer crime evidence gathered from our investigations. A Memorandum of Understanding on computer fraud and abuse was negotiated with the FBI and signed in September 1989.

The additional personnel resources requested for FY 1991 would allow the Service to competently investigate six percent of the financial losses perpetrated on the public via access device and computer fraud. With these resources, a projected $171 million in fraud could be suppressed in Fiscal Year 1991 and provide the Government with estimated corporate income taxes of $46.5 million. These projections represent a 53 percent increase over Fiscal Year 1988.

In Fiscal Years 1990 and 1991, the Service will continue to assist the various industries victimized by fraud schemes within our criminal jurisdictions.

Counterfeiting

Of the known $89.1 million in counterfeit notes and coins produced domestically in Fiscal Year 1989, $75.2 million was confiscated before it could be passed on the public. Seizure of U. S. counterfeit currency produced overseas totaled $103.6 million, an increase of 252 percent over Fiscal Year 1988. This confirms that our two additional overseas offices are a cost-effective deterrent to the foreign counterfeiting of U.S. currency.

Federal Reserve Banks and commercial banks are required by statute to forward all counterfeit currency to the Secret Service, which is subsequently counted by our field offices. In Fiscal Year 1989, our field offices counted a total of $13.9 million in counterfeit notes that were passed on the public. A total of 119 counterfeit plants were suppressed, and 1,809 arrests were made.

Last fiscal year, we continued to develop additional liaison with foreign national police to suppress foreign counterfeiting of U.S. currency.

Forgery

The financial impact of closed check and bond forgery cases in Fiscal Year 1989 was $42 million. Check forgery cases involving a total of 62,216 forged U.S. Treasury checks, were received for investigation. Cases involving 68,185 forged checks were closed, resulting in 2,847 arrests. Bond forgery cases involving a total of 3,292 forged bonds, were received for investigation. Cases involving 2,900 forged bonds were closed, resulting in 25 arrests.

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Other Investigative Activity

We are increasingly seeing ties between our traditional jurisdictions and drugs. The Service is in the process of establishing a Financial Crimes and Drug Money Laundering Unit within its Office of Investigations. This unit will focus on money laundering activity that is derivative of any violation that the Secret Service is charged with investigating.

These violations could result from bank fraud, crimes against banks, or attacks on the integrity of the nation's monetary instruments such as using counterfeit dollars to buy narcotics or selling narcotics for counterfeit dollars to use for another purpose.

In support of the National Drug Strategy, the Secret Service has taken an active role in the developmental stages of the Financial Crimes Enforcement Network (FinCEN). This multi-agency intelligence resource will assist in the analysis and targeting of money launderers and other criminals engaging in illegal financial activities. Special agent personnel and equipment have been committed in Fiscal Year 1990 to this anti-drug initiative, on a non-reimburseable basis from existing manpower and resources.

The Secret Service, consistent with its investigative responsibility in regard to the Federal Deposit Insurance Corporation

(FDIC), is presently evaluating its potential role in helping maintain the integrity of the Resolution Trust Corporation (RTC) by investigating potential fraud against the RTC.

The investigation of financially-oriented criminal enterprises through task force participation is a high priority with the Secret Service. To date, more than twenty-seven field offices are involved in task force operations, focusing on organized crime, bank fraud, drug trafficking and fraud relating to false identification documents.

The Secret Service has also become a leader in the development of sophisticated forensic capabilities. One such effort will result in the development of a computerized handwriting analysis system. The purpose of this system is to determine the authors of threat letters directed at our protectees by comparing these letters against those already in the system.

We have also upgraded our automated fingerprint identification system and utilized our newly acquired International Ink Library to provide technical assistance to other law enforcement agencies. Recently, our fingerprint system was used to identify a threat against a protectee, by searching case data already in the system. As a result of being involved in other crimes in another area of the country, it was possible to effect an identification of the individual involved in the threat.

Training

Development of the James J. Rowley Training Center, in accordance with the revised Master Plan is ongoing, and we expect the Center to be fully operational in 1991. The Center will be a state-of-the art facility to provide training for our ever changing world of protection. Funds appropriated by Congress in Fiscal Year 1989 are being applied to the remaining phases of development. The FY 1991 request includes additional funding needed for the maintenance program at the training center.

Since 1972, the Uniformed Forces and Firearms Training Division of the Secret Service has conducted specialized firearms training at Fort Meade, Maryland. The primary users of this range provide essential protection for the President, Vice President and other protectees of the Secret Service.

Last fiscal year, protective operations briefings were provided to approximately 1,300 State and local law enforcement officers relative to Secret Service protective procedures.

A new computer fraud course was implemented to enable us to better meet the demands of our burgeoning fraud jurisdictions. Also, 135 computer use courses were conducted.

Additionally, almost 500 employees participated in management development programs tailored to executives, managers, and supervisors. Further sensitivity training was conducted, as well as courses on preventing the transmission of communicable diseases such as AIDS during the performance of law enforcement duties. Drug awareness training, as part of the Special Agent Training Courses, was also developed.

The Uniformed Forces and Firearms Training Division provided specialized instruction during Fiscal Year 1989 in Canine and special protective support units, defensive measures/crowd control, firearms instruction, protective operations driving, and motorcycle use.

In Fiscal Year 1991, the planning and development of training for Secret Service and police support personnel for the 1992 Campaign will commence.

Equal Employment Opportunity

Much success has been achieved in the area of equal employment opportunity. Last year, more than 300 employees attended conferences on minority and female issues. In October, we will assist in hosting the Biennial Conference of the Organization of Women in Federal Law Enforcement.

Our expanded minority and female recruitment efforts have increased the presence of these groups in our Special Agent and Uniformed Division ranks. During Fiscal Year 1989, minorities and females represented 49.4 percent of Uniformed Division applicants and 46.4 percent of Special Agent applicants. Minority and female hires composed 22.2 percent of Uniformed Division hires and 45.5 percent of Special Agent hires.

The Service will continue its strong efforts in the area of minority and female hiring.

Summary

Fiscal Year 1989 was an overall success for the Secret Service in accomplishing its protective and investigative mandates. This success was due to the effort and expert performance by our personnel, as well as security personnel from other Federal law enforcement agencies, and State and local governments.

The future holds many challenges for the Secret Service. With the necessary resources, we can provide for the continued safety of our protectees, implement rapidly changing technology, confront a sophisticated criminal element and its drug implications, and fulfill our protective and investigative mandates which include major endeavors such as the recent Drug Summit in Colombia.

I would also like to say that I am always appreciative of this Committee's understanding and support of the Secret Service. Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the Committee may have.

FISCAL YEAR 1991 APPROPRIATION REQUEST

Mr. SIMPSON. The pending appropriation request for Fiscal Year 1991 totals $397,640,000 and 4,531 FTE positions. This is a net increase of $31,378,000 and 95 FTE positions over the Fiscal Year 1990 post-sequester funding level of $366,262,000.

This request reflects program increases of $15,967,000, funds to cover cost increases and maintain our current operating level of $24,482,000, and a reduction of $9,071,000 for non-recurring costs.

The program increases will provide for the safety of our protectees, enforce our investigative jurisdictions, allow improvements in our daily operations, enable technology enhancements, allow for major renovations, and provide start-up funds for the 1992 Presidential campaign.

125TH ANNIVERSARY OF THE SECRET SERVICE

Mr. Chairman, before I discuss our budget request, I would like to mention an important milestone. On July 5, 1990, the Secret Service will commemorate 125 years of loyal, selfless dedication to the American people.

The Service was created three months after the Civil War ended. At its inception, it was comprised of a Chief and ten "operatives." Its sole responsibility at that time was to suppress rampant counterfeiting of U.S. currency.

During the Service's first four years, approximately 800 counterfeiters were arrested. That figure increased to 7,031 during this last four years, an increase of almost 900 percent.

During this same recent four-year period, seizures of counterfeit currency totaled $286.4 million, which clearly illustrates that counterfeiting is an ongoing problem.

The seizure of U.S. counterfeit currency produced overseas, for example, totaled $103.6 million in Fiscal Year 1989, an increase of 252 percent over Fiscal Year 1988. This confirms that our two additional overseas offices are a cost-effective deterrent to the foreign counterfeiting of U.S. currency.

And I thank you, sir, and the other Members of the committee, for allowing us to do that.

Following the assassination of President McKinley in 1901, the Secret Service began providing Presidential protection. Since then, the Service's protective responsibilities have increased dramatically.

The tragic assassination of President John F. Kennedy on November 22, 1963, led to monumental changes for the Service. As a result of this incident, the "Warren Commission" recommended the following: an increase in the number and training of Special Agents; the expansion of protective intelligence; and the acquisition of sophisticated technical security, ADP, and communications equipment.

Subsequent assassination attempts directed towards then Presidents Ford and Reagan demonstrated the need to continually increase our capabilities in order to meet the increasing threats to our protectees.

Also, the rise in terrorism, the rapid growth in our mandated investigative jurisdictions, and the increased mobility of our protec-

tees has necessitated expansion far beyond the Service's humble beginnings and resulted in a budget that is sometimes incident driven but more often serves to prevent incidents. I cite the recent Drug Summit in Colombia as an example of both.

The Service's investigative mission has grown at a rate comparable to its protective mission. From the original mandate to protect only this nation's currency, have come new responsibilities reflecting the nation's increasingly complex, highly technical economy.

Today, that includes fraud associated with access devices such as credit cards, computer fraud, the fraud and forgery of government securities, fraud associated with the electronic fund transfer system of the United States Treasury, and the fraudulent use of identification documents and food coupons.

Also, the increased ties between drugs and the Service's traditional violations of counterfeiting and false identification, is a major factor contributing to the growth of our investigative mission.

PROTECTION

Mr. Chairman, although I have given you only a brief historical overview, I would now like to address the Service's Fiscal Year 1991 budget request.

The effective performance of our protective mission remains a primary goal of our organization, and protective activities continue to be a major factor in our budget request.

Our permanent protectees traveled to 2,685 domestic and 215 foreign stops during Fiscal Year 1989. Presidential travel increased by 100 percent over Fiscal Year 1985 and by 227 percent over Fiscal Year 1981.

Foreign dignitary visits still continue at significant levels and averaged 5.5 days each in Fiscal Year 1989. These visits demand a labor intensive approach to provide an atmosphere conducive to foreign policy development.

The ever-increasing threat of worldwide terrorism poses significant problems for the Service in its efforts to carry out its protective mission. This climate makes the Service's mission that much more costly in terms of personnel and other resources, while at the same time making it that much more critical that the Service be successful in its endeavors.

The more recent phenomenon of narco-terrorism, where criminal elements declare war on a nation, further exacerbates an already deadly situation.

The efforts exerted in seeking to ensure the President's safe travel to Colombia were immense. Sadly, it appears that this is only an indication of what the Service is going to face more routinely in the future as it carries out its responsibilities.

Again, this marked increase in protective activity has not occurred without a significant impact on the Service's resources.

During Fiscal Year 1989, the Service continued to work to improve necessary security systems at the White House Complex and the Naval Observatory. Our budget request for Fiscal Year 1991 contains funding for renovation of a command post at the Naval Observatory.

Implementation of the nationwide communications network continues. Our request provides for upgrades to ADP and communications systems. The Service must be on the cutting edge of this technology to maximize its benefits as they relate to our responsibilities, and to remain ahead of our adversaries.

Development of the James J. Rowley Training Center in accordance with the revised Master Plan is ongoing, thanks to this committee, and we expect the Center to be fully operational in 1991. The center will be a state-of-the-art facility to provide training for our ever-changing world of protection.

INVESTIGATIVE ACTIVITY

We are making similar strides in our investigative mission. We have opened two additional offices overseas to combat the increasing threat of foreign counterfeiting of United States currency.

And again, I thank this committee for their aid and assistance in getting those offices.

The Service has also become a leader in the development of sophisticated forensic capabilities. One such effort will result in the development of a computerized handwriting analysis system.

The purpose of this system is to determine the authors of threat letters directed at our protectees by comparing these letters against those already in the system.

We have also upgraded our automated fingerprint identification system and utilized our newly acquired international ink library—and I might add that I thank ATF because of their particular contributions to this ink library—to provide technical assistance to other law enforcement agencies.

Recently, our fingerprint system was used to identify a threat against a protectee, by searching case data already in the system. It happened to be in Dade County, Florida.

As a result of being involved in other crimes in another area of the country, it was possible to effect an identification of the individual involved in the threat. If we did not have this capability, we might still be looking for the individual.

There were 237,112 case receipts and pending investigations last Fiscal Year. The total number of access device and computer fraud investigations increased by 33 percent over Fiscal Year 1988. The total number of arrests was 1,843.

The investigation of financially oriented criminal enterprises through task force participation is a high priority with the Secret Service. We are trying to give the American taxpayer the maximum bang for the buck.

To date, more than 27 field offices are involved in task force operations, focusing on organized crime, bank fraud, drug trafficking and fraud relating to false identification documents, which seems to go hand in hand with drug trafficking.

EQUAL EMPLOYMENT OPPORTUNITY

The Service continues to increase female and minority employment in our Special Agent and Uniformed Division ranks. In October, we will assist—actually it is November; they just changed the date—we will assist in hosting the Biennial Conference of the Or-

ganization of Women in Law Enforcement which will give us an opportunity to showcase federal law enforcement. As a result, maybe we can be more competitive as far as attracting more females to the ranks of the Secret Service as well as ATF, Customs, and others.

We would like very, very much to ensure that the conference is a showcase.

The future holds many challenges for the Secret Service. With the necessary resources—and this committee has been very, very kind to the Service—we can provide for the continued safety of our protectees, implement rapidly changing technology, confront a sophisticated criminal element and its drug implications, and fulfill our protective and investigative mandates which include major endeavors such as the recent Drug Summit in Colombia.

Mr. Chairman, this concludes my short statement. I would be more than pleased to answer any questions you or the other Members of the committee may have.

APPROPRIATION REQUEST

Mr. ROYBAL. I thank you, Mr. Simpson.

First of all, I would like to thank you for giving us a brief history of the Service going back to July 5, 125 years ago, which means it is not an agency just organized the day before yesterday.

Mr. SIMPSON. No, sir.

Mr. ROYBAL. You have been involved in this work now for 125 years. You told the committee that when they first started there was a chief and ten employees. I suppose that included stenographers and office workers or did that include, if you can remember that far back——

[Laughter.]

I know that Tex can. [Laughter.]

Can you remember? Do statistics show that there were ten agents?

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. There were ten agents.

Mr. SIMPSON. At that point in time, there were no office personnel that we know of. There were just agents or operatives.

And although I take my Geritol faithfully, sir, I am not quite that old. [Laughter.]

As a matter of fact, the FBI was started by borrowing several, as they were called in the military, operatives from the Secret Service. This was based upon the fact that we had conducted a good investigation of the Teapot Dome scandal, and they wanted to utilize a few of us.

So, at that point in time, ten gentlemen went to the Bureau and that is how the Federal Bureau of Investigation started.

Mr. ROYBAL. Has anything about that been documented in booklet form?

Mr. SIMPSON. We tried to assemble something, Mr. Chairman, but unfortunately people who have come before us were not prone to sit down and give a real historic narrative of the Secret Service.

We are now contacting some of our retirees to see if we can obtain historical information.

Mr. ROYBAL. I hope you can do that because I think it is not only important to begin with, but interesting.

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. The history of the Service is very interesting. But I think we ought to start thinking about putting things down so that generations to come can actually see it instead of hear it at a hearing such as this.

Mr. SIMPSON. I could not agree with you more.

PERSONNEL COSTS

Mr. ROYBAL. Now to come down to today's problems, I notice that your budget for this coming year, is $31 million more than last year. Now this is, of course, a large increase.

How is that increase going to be used? While you have made reference to it, I think you said that $15.9 million would be used for programs.

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. Now what is the rest going to be specifically for?

Mr. SIMPSON. Some will be used for personnel costs. We are asking for an increase in the number of agents this year. The total of the personnel costs plus the program increases would equal that amount.

Mr. ROYBAL. You request $9 million for 95 additional positions, which means that the additional $5 million will be used for other purposes.

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. All right. What will these additional positions or personnel be assigned to do?

Mr. SIMPSON. They will be assigned to do some of our fraud investigations. Also, because of the worldwide situation, we have had to increase protective coverage by adding a number of individuals to some of our protective responsibilities.

The positions we are asking for would serve to backfill the areas of fraud, forgery, and counterfeiting and enable the Service to prepare for the start-up of the 1992 campaign.

As you well know, Mr. Chairman—and I know Mr. Skeen and Mr. Akaka know—excuse me, Mr. Wolf, I did not see you down there—that we have not asked for any real increase in the number of agents over the last several years.

We requested 27 two years ago to replace those positions associated with former President Reagan when he left office so that we would have a detail in place. Other than that, we have not asked for any personnel.

If we do not have these additional positions, then we will probably be a little short when it comes time for the 1992 Campaign and the additional responsibilities because of the environment we are living in and the threat of narco-terrorism.

Mr. ROYBAL. The conditions in the world are changing.

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. Which does not mean that it will lessen the need for your agency. It will probably increase it.

Mr. SIMPSON. I would think so.

Mr. ROYBAL. Because as the problems in the world become, in my opinion, better, it still is necessary to give protection to those individuals who may be assigned to some negotiations in various countries.

Mr. SIMPSON. Yes, sir.

CARTAGENA DRUG SUMMIT

Mr. ROYBAL. Which brings to mind then the President's visit to Cartagena. We did get a briefing before it took place.

Can you give us a quick report of what happened?

Mr. SIMPSON. Yes, sir.

Up until the very last minute before the President departed for Colombia, we were monitoring all of the intelligence reports and systems. We had excellent support from the other agencies: the CIA, NSA, FBI, DEA, and ATF. It was truly an amazing cooperative endeavor, across the board, to get the maximum amount of information, particularly, intelligence information.

As a matter of fact, we opened 62 cases of various types. We also interviewed 74 people that allegedly had information that might impact on the visit and the President's safety.

We conducted 23 polygraphs, some of which were taken in Colombia, others all over the country; some in Miami, and Baltimore.

We conducted one in Haiti. We also conducted one in London, because that is where the information was beginning to emanate from. The information came from any number of resources.

I have to give the Colombians a pat on the back. They did an excellent job. They were true to their word. They helped us the way that they suggested that they would. There is a General Mazza in Colombia who runs their security organization. He is a very professional gentleman, and he did an excellent job as did some of the others.

By mentioning General Mazza, I do not want to imply that any of the others did not cooperate. President Barco was excellent. And I have to say that our own President was absolutely the most cooperative of people. He felt very strongly that he should go to represent the United States, as did most people.

President Bush also realized the danger involved. On a number of occasions when we had conversations he said, "You tell me what it is that I am supposed to do and I will do it. You understand why I need to go to Colombia." And I think he did it for all the right reasons.

We felt very confident from the beginning, sir, as you know from the briefing, that we could pull it off. The only thing that we were a little dubious about is that we could not guarantee the protection of the press corps or anyone else. Nor did we ever intend to do that.

We made that abundantly clear to them from the very beginning that our responsibility was to the President and to those who would be under the Presidential umbrella during that period of time who might be the recipients of the security that we effected.

But we could not guarantee security for anyone other than the President.

I think with that particular preamble being given to everyone at the beginning, everyone understood where we were coming from.

We had reports of found missiles the day before we went there. The missiles were not the type that would present a threat with the plan that we had in place.

We implemented plans and utilized resources that gave us a very big advantage over the opposition.

The military was excellent. They were there to support us. For instance, we did not place more than a few people in any type of hotel room in or around Bogota, Cartagena, or Barranquilla. We kept them on a ship in the international seaway. The Colombians agreed to this.

We ferried them in and out daily, so the narco-terrorists did not have an opportunity to kidnap or cause any kind of mayhem to the support people.

We did quite a number of things. It would take more time than we have today to share the information with you, but we would be more than happy to do so.

We had a good plan. I cannot speak highly enough about our own people and about the support that we got from everyone else. It was a unified, united effort and it worked just the way we thought it would.

We had confidence that we could pull it off, although we did not ever want to presume that there was no danger there. But I do think in any kind of a situation you must have confidence in your abilities. Frankly, we had that confidence.

Mr. ROYBAL. I would like to compliment you and the Service for an excellent job. I am glad everything turned out as it did. It was all done on a very positive basis.

Mr. SIMPSON. Thank you very much, sir.

Mr. ROYBAL. Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

There was a great debate going on previous to that trip and I want to compliment you on the way it was handled because I, as one who felt that the trip should be made, took the position that knowing what I know about the way the Secret Service operates if there had ever been one inkling of a doubt in your mind regarding risk you would have called it off.

So I had supreme confidence in it and it was borne out. I want to compliment you. It was well-done.

DRUG SUMMIT SUPPORT

Mr. SIMPSON. Thank you, sir. Thank you.

I just happen to be the representative. It was the troops who did an absolutely magnificent job.

Mr. SKEEN. I am sure that they did.

Mr. SIMPSON. Again, I have to mention the support we got from other agencies. It was really phenomenal. Sometimes we hear critical comments made about the cooperation between various agencies, but that was not the case at all.

We received all the cooperation that anyone could expect.

Mr. SKEEN. I think on the other hand if the President had to back down on that trip, it would have been a devastating blow to

this war on drugs because that means that the territory is staked out by these folks that represent the cartel and they are in complete control of it.

Mr. SIMPSON. I heard a very eloquent speech given by Mr. Gunnels at the Federal Law Enforcement Training Center about drugs and what they have done to our society.

And I could not help but think, Mr. Skeen, as you point out, that there was no way that we could back down unless—and I had made up my own mind and I know that we all conversed, those of us who have responsibilities in the Secret Service—that if we felt that the President would be in danger or that we could not pull it off, we would certainly recommend that he not go.

But at no time did we ever feel that way. We had a good plan. We had cooperation. We had control. And I have to say again that the Colombians were very forthcoming as far as helping us.

Mr. SKEEN. I think the confidence level in the Congress was such that had the Secret Service said there was some doubt in our mind, they would pull the plug on it.

So at no time did I think we had anything but supreme confidence.

Mr. SIMPSON. Thank you.

CONSOLIDATION OF HEADQUARTERS

Mr. SKEEN. Let us talk about the $5.3 million that we are talking about for the consolidation of your headquarters. What is the situation?

Mr. SIMPSON. We are moving along as quickly as we can. We can get you for the record, sir, anything you might need as to how we are progressing.

But obviously we have to go out on the street for the solicitation. That is the law.

Mr. SKEEN. The Secret Service on the street soliciting? [Laughter.]

Mr. SIMPSON. If it were me, sir, there would not be any takers, I would have to say, as ugly as I am. [Laughter.]

Even with Geritol, it does not help me. [Laughter.]

At any rate, we are going out on the street with the solicitation very shortly. We can get you the chronological——

Mr. SKEEN. Just get us a summary, would you, for the record, a short summary.

Mr. SIMPSON. We have taken over one floor that we talked to you about last year when you were so kind as to help us in that matter, the tenth floor.

The National Science Foundation is looking for a place to reside, and we are moving along. We will have to take it over incrementally, probably over the next several years, if we do in fact end up staying in the building that we are currently in.

And that is part of the process of going out on the street with the solicitation. It presents other opportunities for people to say that they have a similar building for us in the same general location.

Once that is done, we will move on to the next step. We have given the money to GSA. They have it in a no-year account. As we

proceed and as the money is needed, GSA will expend it accordingly.

Mr. SKEEN. Just an abstract of that.

Mr. SIMPSON. Yes, sir.

[The information follows:]

CONSOLIDATED BUILDING

A comprehensive consolidation "Master Plan" for the Secret Service has been prepared by Peck/Peck and Associates (in conjunction with the General Services Administration). We are actively working with the General Services Administration in an effort to implement this plan.

Toward that end, we are now in the initial stages of preparing a Solicitation for Offers (SFO) which will include detailed specifications for our consolidated site. The SFO will be used to obtain bids from potential lessors. It will be prepared by an architectural/engineering firm currently under contract with the General Services Administration. Current scheduling calls for the SFO to be completed this summer. Once prepared, the SFO will be presented to potential lessors for preparation of proposals.

Concurrent with the development of the SFO, we are working with the General Services Administration in the development of the Prospectus for the consolidated site. Current scheduling calls for the Prospectus preparation process to be completed this spring.

NEW YORK FIELD OFFICE

Mr. SKEEN. What are the physical conditions existing now in your offices in New York?

Mr. SIMPSON. According to GSA, they have done a study and it is not——

Mr. SKEEN. That did not improve the situation a bit?

Mr. SIMPSON. No, sir, it did not. But I have to say GSA tried. Evidently GSA had a fund at one time that was utilized to refurbish chosen areas.

They chose our New York field office as a worthy candidate for refurbishment but unfortunately they did not have the funds in their budget to do it.

Mr. SKEEN. Is that a lease situation?

Mr. SIMPSON. Yes, it is. It is a 99-year lease, though, and it is a rather good lease as far as the government is concerned. It would cost us a great deal more money if we moved out of that particular building into any other building.

Mr. SKEEN. But I understand the conditions are pretty bad?

Mr. SIMPSON. They are bad, sir.

Mr. SKEEN. Very difficult to operate.

Mr. SIMPSON. It is difficult to operate and it is a morale issue, too. We are trying very hard to retain the people that we recruit to make sure that we have an ample work force and one of a professional nature that you pointed out earlier on.

And, as you know, it is difficult to work in an environment that does not have the minimum of things that you would consider to be normal—and that is the case up there.

We did not hype GSA at all as far as their choosing that office to be one of the recruits for refurbishment. We merely showed it to them. They, in their professional judgment, felt that it needed to be improved.

Mr. SKEEN. I think they do a fair job. Of course, they come before us, too, and we interlock these questions.

Mr. SIMPSON. I have no complaints with GSA at all.

Mr. SKEEN. I think they do an outstanding job. We will get into——

Mr. SIMPSON. Except that they did not have any money left, but that is not their fault.

FORMER PRESIDENTS PROTECTION

Mr. SKEEN. That is one of their complaints, too.

One of the issues that arose when GSA was here was this business of former Presidents. It is a constant problem in Congress because this is a favorite target. I think it is justified because we get all the news reports about what happens when the President takes a trip that is involved with private revenue, and GSA gave us a little illumination that I think was important the other day.

They said most of the costs, in particular the citation was the trip of former President Reagan to Japan, and how it was handled they claim that there was no money spent at all out of Treasury money. It was all picked up privately.

Is this correct?

Mr. SIMPSON. Well, we had to pay some monies because we incurred some per diem and some residence costs.

Mr. SKEEN. You had some incidental costs due to the fact that you were there.

Mr. SIMPSON. Because of our responsibility. For instance, we were given free plane fare to and from. It cost us nothing, although not for every one of our troops because we had to send some people ahead of time.

But those people we took with former President Reagan were flown to and from at no cost to the government.

Mr. SKEEN. Accommodations were picked up?

Mr. SIMPSON. No, not the accommodations. The plane fares.

Mr. SKEEN. The plane fares?

Mr. SIMPSON. Yes.

Mr. SKEEN. What other expenses were picked up?

Mr. SIMPSON. Just the fares, that is all.

Mr. SKEEN. No per diem was taken care of?

Mr. SIMPSON. No, sir. Not to my knowledge.

Obviously we are mandated by law to protect former Presidents and former First Ladies and we do what we are told.

Mr. SKEEN. You cannot decline?

Mr. SIMPSON. We cannot, but the protectee can decline—as President Nixon did.

Mr SKEEN. But the principal can?

Mr. SIMPSON. Yes, sir.

Mr. SKEEN. And do you have any authority to accept any reimbursements at all for these accounts?

Mr. SIMPSON. You know, sir, I cannot answer you. I do not know.

Mr. SKEEN. That is a tough question. We have gotten into it with the military.

Mr. SIMPSON. I cannot answer. We will research it and find out for you.

[The information follows:]

REIMBURSEMENT FOR FORMER PRESIDENTS

The Service does not have authority for receiving reimbursement from former Presidents for the costs of protection. The Service is mandated to protect former Presidents under 18 U.S.C. Section 3056(a) and all costs incurred for this protection are funded through the Service's annual Appropriation.

Mr. SKEEN. You cannot accept reimbursement from private sources?

Mr. SIMPSON. I do not think so.

There is one thing I think we have to be very careful of, and we have talked about this before. I know the Chairman asked a question a couple of years ago. I think that one of the things that has to be considered by Congress is whether the American public is willing to accept the responsibility for any type of heinous act that might be perpetrated on a former President or a former First Lady.

You know, these people are held in reverence when they go overseas. It is unbelievable how a President—for instance, President Reagan or President Carter—is viewed by the people in foreign countries.

Somehow, I think we have to consider that responsibility in this whole arrangement of what it is that we need to do. I also know the question—"Well, what about the intelligence?"—is asked.

Intelligence only goes so far, and then you have to do some other things. There was no intelligence on John Hinckley or Arthur Bremer. There is no intelligence on many people out there.

There was a gentleman who was picked up in a bank robbery in Oakland, California. He turned out to be a stalker. He had gone around and stalked the President of the United States.

We have evidence and proof that would indicate he is telling the truth. He is not mentally capable. But he said that he did not do anything because of the type of apparatus that surrounded those individuals that he was stalking.

Mr. SKEEN. So just the presence is a deterrent?

REIMBURSEMENT OF PROTECTIVE EXPENSES

Mr. SIMPSON. That is true, sir. And I think we have to be very careful. There are financial implications here which are out of the scope of my authority.

But just as an aside, I think we have to be really careful that we do not consider some very quick fixes to something that is a long-term situation.

Mr. SKEEN. That is why we brought the subject up, because it impacts on us. I do not think you have any mechanism for reimbursement. I do not know whether that kind of a mechanism would even work.

Mr. SIMPSON. I cannot answer you. I really do not know, sir.

Mr. SKEEN. We can go through the whole gamut of questions about what would happen if the monies expended for former Presidents were cut. We go through this. And I am looking for answers, too. We have a mind-set about this thing and I think the service that you do now is one that is absolutely necessary.

How we fund it gets to be a peculiarity due to the problem that these same individuals are highly sought after. Then it is highly publicized what they receive as far as reimbursement.

Mr. SIMPSON. To be President of the United States——

Mr. SKEEN. It is a tough question.

Mr. SIMPSON. It is a very awesome responsibility when you are sitting in office, and you are revered when you are out of office. And I do not necessarily mean——

Mr. SKEEN. I think the Members of Congress suffer from the same thing. They are more revered out of office. [Laughter.]

Mr. SIMPSON. I am not touching that question. [Laughter.]

EQUIPMENT TECHNOLOGY

Mr. SKEEN. That was my line. You did not have anything to do with it. You did very well.

We will get off of the former Presidents issue. The last question I would like to ask you: you alluded to the situation with your equipment such as communications equipment, mobilization equipment and so forth.

Where are we in that condition, in that spectrum? Are we behind the curve, ahead of it a little bit, or what?

Mr. SIMPSON. As far as voice privacy, we are falling behind; because quite candidly we needed the money we had for voice privacy to help cover the costs of some of the pay raises in the past and other costs that we have been forced to absorb.

Mr. SKEEN. You take care of personnel first?

Mr. SIMPSON. Sir, I grew up during the Depression and I am sure that you probably did, too. And I never ever want to see anyone unemployed again if I can help it. I saw my own father, and I am sure you saw a lot of people. What it did to the morale of those people who were vibrant human beings is something that I never want to experience again.

So if I can do anything to keep people working in our organization, I will.

Mr. SKEEN. Take care of your personnel.

Mr. SIMPSON. Yes, sir.

Mr. SKEEN. I think that is your primary—but the condition of your equipment. You mentioned we have got to stay on the cutting edge.

Mr. SIMPSON. We do. We are on the cutting edge of technology in most areas, but there are a couple of items, for instance, our mainframes, where we must ensure that we stay on the cutting edge of technology.

For instance, there are two items in the budget at $500,000 each which will put us at that particular cutting edge. As you all know, technology has taken a quantum leap. And some of the technology we had four or five years ago is not operative anymore.

So that you have to go to the next generation of technical equipment. And we need to have that timing. We need to be, as you pointed out, right on the cutting edge of all of these types of things.

We need to know, for instance, that if we have a stalker in California that we can process information through our system and implement whatever is necessary to ensure we are doing things properly.

Up-to-date technology is the way to make sure that things are done properly. It is a vehicle that has evolved over the last genera-

tion, especially the last decade, and one that we need to be right on the cutting edge of, even ahead of, if we can.

We are trying very hard to do that.

COMMUNICATIONS TECHNOLOGY

Mr. SKEEN. How secure are your communications?

Mr. SIMPSON. Well, that is dependent on whether we have voice privacy or not. In those offices and areas where we have voice privacy, it is exceptionally good. But, we are falling behind.

Mr. SKEEN. That technology also catches you.

Mr. SIMPSON. It does. But we are on the cutting edge of that technology. As a matter of fact, we and others are probably pushing some of the manufacturers in that area.

Again, we would obviously like to have—it is an expensive proposition to go voice privacy. Over a period of time, we are probably talking in terms of $80 million. That is a very large amount of money.

But in order to do the job properly—for instance, when we went to Cartagena we had voice privacy. There was no way that our adversaries could in any way, shape, or form get any information from us by virtue of monitoring our systems.

We would like to have that throughout the country, because we need to be in a position where if something is occurring we do not have everyone monitoring us, the news media or whomever.

And the bad guys, as you well know, these narco-terrorists, they have equipment that is just unbelievable.

Mr. SKEEN. They have the best.

Mr. SIMPSON. They certainly have.

Mr. SKEEN. The only way we are getting it is forfeitures. [Laughter.]

Mr. SIMPSON. That is true, sir.

Mr. SKEEN. That is an incredible statement.

Mr. SIMPSON. We need your help on these things, sir.

Mr. SKEEN. I do not think you have to worry about this group. We have to convince the others.

Thank you, Mr. Chairman. And thank you very much.

Mr. SIMPSON. Thank you, sir.

Mr. ROYBAL. Mr. Wolf?

Mr. WOLF. Thank you, sir.

Mr. SIMPSON. We are not doing anything, Mr. Wolf. We have not raised a sewer, dropped a pavement around the White House. We are not disrupting the traffic from Northern Virginia, believe me, sir. [Laughter.]

Mr. WOLF. I want to second all the wonderful things that have been said about you and the Service, not only in the protection of the President but also in counterfeiting and forgery and all the other activities.

In answer to the question that was asked, I do not believe anyone would want to see any diminution of the effort with regard to former Presidents because nobody would want to see anything bad happen.

And I think clearly we all appreciate very much what President Carter did just the other day.

Mr. SIMPSON. He is a real gentleman in those areas, he really is.

TRAVEL BUDGET

Mr. WOLF. Having said that, though, just to follow up on what Mr. Skeen asked you. On page seven of your testimony on the title permanent protection, you said in Fiscal Year 1989 the Secret Service's permanent protection was mandated by Title 18, travel to 2,685 domestic and 215 foreign stops during Fiscal Year 1989.

What percentage of those stops were by former Presidents?

Mr. SIMPSON. I do not have the breakdown for you, Mr. Wolf, but we can get it, and we would be glad to submit it for the record if that would be okay.

Mr. WOLF. You can submit it for the record and you can come on by and just submit it to me personally.

Mr. SIMPSON. Sure.

[This information follows:]

FORMER PRESIDENTIAL TRAVEL

The following is a breakout of Former Presidential travel stops for FY 1989.

	Foreign stops	Domestic stops	Total	Percent of Stops for all Protectees
Former President Reagan	5	59	64	2.21
Mrs. Reagan	4	81	85	2.93
Former President Ford	2	295	297	10.24
Mrs. Ford	0	76	76	2.62
Mrs. Johnson	26	83	109	3.76
Former President Carter	25	175	200	6.90
Mrs. Carter	24	175	199	6.86
Total	86	944	1,030	

Mr. WOLF. Secondly, what percentage of your overall travel budget is taken up by trips of former Presidents?

Mr. SIMPSON. We have not broken it down. One of the things that we try to do is to maintain it in a general way, because some people who may not have honorable intentions might plan to do something that would be disruptive to a former President or even the current President.

So we do not break it down that concisely. We might be able to come up with a fairly good guesstimate.

Mr. WOLF. I would like to see you do that and you do not have to submit that for the record. If you run by the office personally with that information. I would be interested to know the percentage of your travel budget—how many agents go with a former President?

Mr. SIMPSON. It would depend on what kind of a conveyance he is on and what type of city he is visiting.

Mr. WOLF. Let us say it is a five-day trip to the East Coast to give three speeches.

Mr. SIMPSON. What we would do is travel with a minimum amount of people. Again, we would prefer not to talk about numbers. We would pick up the remaining number of necessary people from the field offices when the current President is visiting.

That is why a field office is so necessary, not only to confront the criminal side but because they help us in our protective roles.

Mr. WOLF. I can understand your not answering the question publicly, but if you could come by maybe later this week or next week to discuss the percentage of your travel budget that is required by former Presidents.

Mr. SIMPSON. It probably will be a guesstimate more than an exact number. Some travel, for instance the last two trips of President Carter, were made so he could monitor the political situations in Panama and Nicaragua where it is government sponsored.

Mr. WOLF. I understand that. I do not think anybody is questioning that. Frankly I think the more former Presidents do, the better. Like President Carter when he went to Sudan and Ethiopia. I think people would—frankly, if this committee had to put more money into it, I think we would be pleased to do it because he has really made a tremendous difference over there.

Everyone focuses on Nicaragua, but I think what he has done in the Sudan and Ethiopia may save many more lives.

Mr. SIMPSON. I do not think anybody could have gotten the Eritrians in Ethiopia to sit down, and he did it.

TRAVEL REIMBURSEMENT

Mr. WOLF. Exactly. So I do not think anybody is questioning those kinds of trips. I think Mr. Skeen put his finger on it and was alluding to it. I think the trip to Japan where a former President earned a significant amount of money bothered some people.

And nobody is suggesting that the Secret Service not accompany the President. And if you felt that more agents should go with him, then I think everyone would agree. I think it is a question of reimbursement.

The third question I would like you to answer is why you could not accept reimbursement? I mean the Japanese were prepared to do literally anything.

They outfitted that 747 plane. They did a lot of other things. They would have also paid for a portion of the reimbursement to the federal government, not labelling it in such a way that you would be able to attribute how much this was costing the Secret Service to protect the former President.

It could be done as a general reimbursement. I think that would be better. I think frankly the former Presidents would favor that. And I think frankly the American people would favor that. And I am not so sure that in your heart of hearts the Secret Service would not favor that, because that may be money that you could use to upgrade your equipment or do other things.

But there is a difference between trips taken to bring Eritrians to the peace table versus trips taken to go to a private speech. Anyone who denies that is frankly just not focusing on the issue.

I think the more we use former Presidents, the better. But there is a difference.

But the difference is that one is an official public service trip; the other is not. For the second there ought to be reimbursement. There just ought to be reimbursement.

I would venture to guess that if you were asked or your people—and you have such fine people—were asked to go give a speech to a group of Fortune 500 CEOs and tell them the intricacies of the Secret Service. I just thought of this when the Chairman was speaking. Maybe you ought to try to do that and I mean this seriously, not jokingly—maybe you ought to try to get a television show about the Secret Service similar to the one about the FBI. [Laughter.]

I think it would be meritorious. I think you have an excellent story to tell and that is not a bad idea. One of my daughters—I have five children—is sixteen and she is interested now in becoming an FBI agent.

Mr. SKEEN. The Secret Service would like to talk to her first. [Laughter]

Mr. WOLF. Partially because of having seen that show. And I do not think it would be a bad idea. I think it would be a positive idea if there were a Secret Service show.

Mr. SIMPSON. There was a four-part show not too long ago about the Treasury. We were in one portion of it, obviously, and ATF and Customs. And for whatever reasons, it was not a big seller.

Mr. WOLF. If you could get Tom Cruise to play the Secret Service agent. [Laughter.]

Mr. SIMPSON. That certainly would help. I imagine your sixteen-year-old girl is like most of our daughters. He is a rather vibrant type of guy, and they all seem to think he is—I forget what the term is they use.

Mr. WOLF. It certainly helped the Navy in Top Gun. And I mean that seriously. I think you all have such a great record. It would be a great series and a great story that you could tell.

But if you could go back and look at those matters we discussed and see why it would be absolutely wrong for me to offer an amendment calling for reimbursement. Or, tell me why would it make sense and how would you do it.

Mr. SIMPSON. Okay. We will do the best we can.

Mr. WOLF. And then would you bring that to my office?

Mr. SIMPSON. One of the things I would suggest to you, Mr. Wolf, is that if you get into any kind of situation where people would provide funds, for instance, the government of Japan. I do not know whether it was the government of Japan or private sources who funded the trip——

Mr. WOLF. It was private.

Mr. SIMPSON. But if we get into a situation where they would say okay, we will reimburse you $10 for the number of agents and we felt we needed 20 or 30 agents so it would be $30 or $40, instead of $10——

Mr. WOLF. I think this is what it is going to cost and if you cannot pay, then we are not going to go, period. I do not think you can get into bargaining. I think you cheapen the process like that.

You know precisely what you have to do as a professional to protect a former President.

Mr. SIMPSON. We think so, yes.

Mr. WOLF. This is what the cost is. It is not a discount because you are in a certain location and it is a warm weather climate and we will give you this. This is what it costs.

And if you want this gentleman to go and if he will play an important role, this is what it is going to be. And if they cannot reimburse it, then the trip is off. Or, the opportunity would be similar to what President Nixon has done whereby he has set up his own protection.

Mr. SKEEN. Will the gentleman yield?

Mr. WOLF. Yes.

TRAVEL BUDGET

Mr. SKEEN. It brings up an interesting question. How do you calculate the cost when a sitting President undertakes a political trip, for instance? How is that broken down? Because I know that the parties have to reimburse.

You do not touch it?

Mr. SIMPSON. We do not touch it. We stay out of it because it would——

Mr. SKEEN. Does this have to deal with Treasury?

Mr. SIMPSON. No. It is just part of our budget. We budget for a certain amount of activity for the President. We do not break it down between political trips and trips attributed to Presidential responsibilities.

Mr. SKEEN. Somebody charges the political parties when a sitting President——

Mr. SIMPSON. We are not part of it. Where we fly, we take care of ourselves if it is commercial. If we fly military, then we are given those particular seats on the plane.

Mr. SKEEN. I knew that there was some reimbursement made somehow or other.

Mr. SIMPSON. I think that there is, Mr. Skeen, but I really should not speak to it because I am not that knowledgeable.

Mr. SKEEN. Thank you.

Mr. WOLF. And lastly, the man-days involved, if we could get the man-days.

In leaving this subject, let me end by putting a certain spin on it. I am not suggesting that the Service stop these trips because I think you make a very important point, that a former President needs your protection. We are talking about reimbursement.

Also, the requirement for reimbursement may actually cut down on some trips. But if that were the case, then so be it. But we are not talking about cutting out the protection. We are talking about reimbursement for the American people.

But if they are going for a personal, private gain, then I have a hard time explaining that to my uncle back in Philadelphia, living on social security, why that ought to be paid for by the taxpayers.

Mr. SIMPSON. The only other thing I want to bring to your attention, Mr. Wolf, is that if a particular former President or First Lady had a commitment that they felt very strongly about, whether it is a commitment to speak to a private group to raise the consciousness of a country or a group about drugs, just for a hypothetical example. If this particular situation you described was postured to the sitting or the former President or First Lady, and they said they were so committed to doing this particular speech that they

would go regardless of whether we were with them or not, we are not at liberty because of the law not to go with them.

Mr. WOLF. I think you missed the point. If they were going to get paid $25,000 to give a speech. But if they were not getting reimbursed, then I think clearly you ought to go.

Mr. SIMPSON. I understand the reimbursement. But if they were so strongly inclined regardless of the fact that they were getting the $25,000——

Mr. WOLF. Then I think you would have to go.

Mr. SIMPSON. Okay. And I think it is very important that that point is out on the table.

EMPLOYEE ASSISTANCE

Mr. WOLF. And I think the American public would have to make that—I mean I think full and open disclosure is not bad. The American public would make that judgment.

I am also not suggesting that speeches to drug conferences or the PTA really ought to be prohibited. I think the more we can have former Presidents going out and speaking the better.

It is purely a question of reimbursement. So if you could come on by my office, I would appreciate it.

The last question is kind of hard to really kind of focus in on and maybe we can talk about it when you come on by the office. Your men and women in the Service do such a good job. It has always troubled me a little bit about how difficult it is on their families.

My dad was a policeman in Philadelphia. During the period he was a policeman, he was probably only home half of the Christmases. I can recall a lot of the time he would get home, he would have worked the 12:00 to 8:00 shift on Christmas and then come home about 8:30 or 9:00 in the morning and he would be dead tired but would kind of stay up for a while.

It is disruptive on the family. High school graduations, he could usually get somebody to substitute, but maybe not. And it causes great stress. And you compound it in a way that my father really did not have to deal with. He did not have to travel outside the City of Philadelphia. Just from South Philadelphia to North Philadelphia and that was about it.

Your guys go from Washington to Addis Ababa and all those places like that. Do you have any special program—and I am sure you are sensitive to this to be more sensitive to the impact on the families of that type of stress and travel and absence from the home?

Mr. SIMPSON. We have a very good employee assistance program. If that situation develops to the point where it presents a problem, then we focus in very quickly on the individual. He or she can come to the employee assistance group and ask for any help that is available.

For instance, psychological counselling, that type of thing. But you have to be really careful that you do not go beyond the point where you are probing into one's private life.

Mr. WOLF. I am not suggesting that. I am really suggesting preventive actions. A firm policy that is there at the early stages; you know, greater emphasis on family, greater emphasis on the oppor-

tunities. Emphasis on the transfers whereby the agency will—I mean if somebody is in the 12th grade and they are on the Yorktown football team, then their father gets a message that he is being transferred——

Mr. SIMPSON. We do not do that, Mr. Wolf. We are very cognizant of the children, the family, the situation. We try as best we can to be a family. And we take into consideration all of those particular things that you have pointed out.

We try as best we can without probing into a person's personal life. We do not approach an individual and say gee, Charlie, you had a fight with your wife last night. Was it because you were out for two weeks or whatever it is?

If there is a family situation where he or she needs any help, all they have to do is let us know. We watch our employees very closely to make sure that if we see any signs of stress or strain, that we do something about it very quickly.

Now we are not perfect by any stretch of the imagination, and I am sure you could get some nay-say and somebody would state that we should watch more closely.

But I also think you would have many people tell you that we have the type of employee assistance program that other people want to emulate. And I think when you get down to the final analysis, that is the highest form of flattery.

Mr. WOLF. That is good to hear. So if a man or woman was in the Service and their son was graduating from UVA or the University of Maryland——

PAY AND RETENTION

Mr. SIMPSON. All they would have to do is let us know that it would not be convenient at this time, and we would try to adjust accordingly. Which brings me to a point—you gave me an opening and I am going to discuss it.

There is a commission called the National Advisory Commission on Law Enforcement. A bill related to this commission should be forth coming in the next several weeks. It has a number of recommendations in it.

It would be very, very helpful as far as our employees are concerned. And it would give them a lift. It would show that the Congress is behind more enforcement. There are a lot of things in the bill that make us more competitive as far as recruiting and retaining personnel is concerned.

There are a lot of things in the bill that would help one in those kinds of stress situations especially those which involve money.

But anyway, sir, when that particular bill begins to wind its way through the process, I would hope that you would support it and advocate the recommendations in the bill.

Mr. WOLF. Well, I sure will. I was very supportive of the overtime bill last year.

Mr. SIMPSON. That recommendation is in there. As a matter of fact, it is No. 6 in the recommendations. The AUO bill was a little ahead of the Commission's final report.

Recommendation 16 states that it would be fully funded. Our agency, as well as other agencies, will come before you regarding

AUO. We are going to be a hurting group because of the amount of money that the AUO bill is going to cost.

We need some help.

Mr. WOLF. I think it is good that we passed it last year because a lot of these recommendations come out and lay around here for years and years and years, and last year was an opportunity.

Mr. SIMPSON. That certainly is going to help a lot, Mr. Wolf.

Mr. WOLF. Former Congressman Ed Bethune did a very good job of lobbying for that bill. Senator Dole was very, very supportive of the bill.

Mr. SIMPSON. So is Ms. Oakar, too.

Mr. WOLF. Clearly. It was Ms. Oakar's bill.

And I think it is very important because I think if a man or woman is meeting their family's needs at home and they are not having that stress, they are clearly going to be a better agent at work, whether they have a job guarding the President or a job tracking down a counterfeiter.

REASSIGNMENTS

Mr. SIMPSON. Because we have had to absorb some of these pay raises and other things that are coming down the pike—and please bear with me for a moment. I am not crying in my beer; this is just pointing out something.

There are some times when you want to make compassionate reassignments. There are some areas where you would want to move a particular individual. For instance, we had such a situation many years ago which I think it is okay to mention now.

We had a young fellow whose son needed special care that could be provided at St. Jude's in Memphis. We were able to transfer that individual to that particular locale in order for him to obtain treatment for his son.

What we are now running into is that we have to keep pulling in all of our transfer money, and we still have some situations where we would like very, very much to transfer the individual because of compassionate reasons.

Just the other day we had a young fellow whose family was in this kind of situation. His dad was a double amputee, and his mother had contracted Alzheimers. His sister was at the edge of her rope. She was trying the best she could to take care of the family.

We managed to allocate enough money to transfer that young fellow. But it got to the point where he was even willing to pay his own transfer costs.

Now we move people around for the convenience of the government. And this young man will do an outstanding job because that is the type of human being he is.

But as you point out, in order to get the maximum amount from a particular individual, he or she has to be ready to do a responsible job when he or she comes to work everyday.

And when you lump these types of problems on the employee, it makes it difficult for him or her. But if you can address them and the employee sees a light at the end of the tunnel, it makes for a far more energetic and I think productive employee.

Mr. WOLF. I agree. Well I would encourage it. I am pleased to hear that. I think the more sensitive that your agency is the better. Other agencies, some do good jobs. Some really do not do very good jobs.

Some take an attitude that they are not here for the family, they are here to do their mission. And I think if a person is meeting their family needs at home, they are actually a better agent or a better whatever they are when they are at the office.

And I just commend you on this. I cannot speak for everybody on this committee. But it is great where you can make those types of reassignments or changes to keep the family intact and together. The demographics with regard to the breakup of a family are very, very frightening.

And I think anything that we as employers can do to be sensitive to those things are a plus for employees but also, as you said, they will do a better job for the government.

Mr. SIMPSON. This gentleman sitting beside me is our Assistant Director for Administration. And if you can find me a more compassionate, a more understanding, and a more professional man, I would like to know who he is.

He makes sure that those particular areas are addressed and addressed very properly. He is a man that, in my humble opinion, if we had more people like him in the government, we could not go wrong.

Mr. WOLF. Good. Well, I commend him. And I wanted to raise that for the record, because sometimes you can get so focused on dollars and cents and budget that we forget the more human side and the more personal side.

And I just commend you. And we encourage that you just continue, because the more we do that in government, I think the better the people are going to be and the better it is going to be for everybody.

Mr. Chairman, I thank you.

Thank you, sir.

Mr. SIMPSON. Thank you very much.

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Mr. Simpson, it is so good to see you again.

Mr. SIMPSON. It is nice to see you.

Mr. AKAKA. For some reason, I feel close to you and what you are doing.

Mr. SIMPSON. We feel very close to this committee because they have been awfully good to us.

Mr. AKAKA. I want to tell you that you are a powerful lobbyist. [Laughter]

What you proposed this morning will certainly be in our minds and our hearts when it winds its way through the legislative process.

Mr. SIMPSON. Thank you, Mr. Akaka. I really appreciate that.

HISTORICAL OVERVIEW

Mr. AKAKA. There is no question in our minds, too, that you have done a tremendous job, you and your people. When I think of you, I

think of the word commitment, that you have to our country and to the missions that you have.

I thank you also for the history that you gave today. I was surprised that three months after the Civil War is when you came into being and how counterfeiting was the first mission.

And today it is still one of the most important missions of any Federal agency. Assassinations also brought changes to your mission to protect the President.

Mr. SIMPSON. Yes.

Mr. AKAKA. I also read about changes in protective intelligence after JFK's assassination.

But anyway, this was fascinating for me to read. But first I want to congratulate you and the Secret Service on your anniversary of 125 years and what you have provided for our country here.

Also, that there is no question in my mind that you will continue to demonstrate the kind of commitment for the next 125 years ahead of us.

Mr. SIMPSON. I cannot speak for Geritol but I hope I am around in 125 years.

Mr. AKAKA. Well, you are doing real well.

Secondly, I want to also congratulate you for the overwhelming task that you had recently at the Colombian Drug Summit. It was a tough job. It was well done. And I am sure it is not the kind of task you want to see come about more often.

Mr. SIMPSON. No. Once is sufficient. But I have to say, again, in response to the Chairman and Mr. Skeen, that—I know this is a parochial statement—but we have some of the finest young people that God ever put on this earth. They made a supreme effort. They did just a magnificent job. Again, the cooperation was there.

COUNTERFEITING

Mr. AKAKA. Yes. Well, this is why I tell you that this committee is very supportive of your efforts.

I would like to ask you some questions about counterfeiting.

Mr. SIMPSON. Yes, sir.

Mr. AKAKA. You noted that in 1988 there was a 24 percent increase in the printing of counterfeit notes.

Mr. SIMPSON. Yes.

Mr. AKAKA. And that in 1989 you report that there was an unprecedented level——

Mr. SIMPSON. Yes.

Mr. AKAKA. Of increase.

Has the volume continued to increase?

Mr. SIMPSON. It has, Mr. Akaka, because of the technology that is out there. We have taken some quantum leaps in some of the technology areas. For instance, laser printing. Office machines, these Canon machines, it is amazing what they can do.

There are some people who we do not consider to be professional counterfeiters. We call them casual counterfeiters. But the fact of the matter is that if a guy is a little short this week, he can run off five or six 50's on a Canon copier and pass them. That takes care of his deficit for that period of time. And a lot of people are doing exactly that.

Then we have this laser printing, this particular technology. It is unbelievable what it can do to the quality of a bill.

We are doing very well. We seized 123 counterfeit plants last year. We get most of the counterfeit money before it is passed on the public. The problem is that what does get passed on the public in many respects is so doggone good that it takes a little while to retrieve it.

So, consequently, you might be a step behind in some of the investigative areas. We have a situation right now wherein we try to do the best we can. I think we have shown some of the Members this particular bill. It is an absolutely outstanding bill and one that we try very hard to get a grasp on.

It has international ramifications also. Tomorrow, for instance, we will travel to Southeast Asia to see if we can get some help from law enforcement agencies there.

But to answer your question and to be as brief as I can, technology has just taken a quantum leap; and I think this accounted for the increase in the amount of counterfeiting.

Mr. AKAKA. Is there a sort of common denominator that you use. Therefore, the printing is excellent with laser and all of that. Is there any other way you can detect some of these counterfeits?

[The information follows:]

CURRENCY TIMETABLE

The Bureau of Engraving and Printing is responsible for devising and introducing counterfeiting deterrents into the production of genuine currency. The current timetable calls for the introduction of these processes in the Fall of 1990.

The two changes in genuine currency production currently planned will involve the use of a poly fiber denominated thread in each note, and micro-printing around the portrait. At first, only 50 dollar and 100 dollar denomination notes will be affected.

If further delays are encountered, we anticipate that the Bureau of Engraving and Printing will notify us.

Mr. SIMPSON. There are going to be some deterrents introduced into the currency over the next year or so. The time frame we would have to get for you because it changes periodically, for instance, when they will introduce a security thread and some other particular features beginning with the hundreds and the fifties.

This will go a long way to deter counterfeiting, but we need to do some more. We are recommending some things, and the Secretary obviously is very much aware of some of the things that need to be done.

We meet periodically with what we call our counterfeit deterrent group which includes for instance the Secret Service, the Treasury, BP—Bureau of Engraving and Printing—and that type of thing.

We think when some of these deterrents are introduced, they will resolve some of the problems. But the other problem is the technology. I mean it is unbelievable how these machines have improved dramatically.

Just to demonstrate, sir. Say you are in a dark store or a dark restaurant and somebody hands you one of these, and there are a lot of people behind you.

By and large, most people are in a hurry to do whatever it is they are doing, and they will take bills like this and you are out the door and gone. They might never see you again.

COUNTERFEIT

[Counterfeit bills are presented to the committee.]

Mr. AKAKA. Which is the real one?

Mr. SIMPSON. See, that is the problem. But it is amazing. These machines are so absolutely wonderful that they can do things like this.

Mr. SKEEN. Will the gentleman yield?

Mr. AKAKA. Sure.

Mr. SKEEN. Even the paper, they are reproducing the paper.

Mr. SIMPSON. The paper is excellent paper.

Mr. SKEEN. That used to be a deterrent at one time.

Mr. SIMPSON. Well, it is still a deterrent, Mr. Skeen, but the quality of paper is better and some people obviously cannot tell.

For instance, up in Congressman Conte's area is the place where the paper is made, and they do a heck of a job.

Mr. AKAKA. Are these all counterfeit?

Mr. SIMPSON. Yes, sir. They were made on a machine.

Mr. SKEEN. Just run out on a copier?

Mr. SIMPSON. Yes, sir.

Mr. AKAKA. Now I am sure because of the technical ability you have that you have been working with the Secretary of the Treasury?

Mr. SIMPSON. Yes. We work with everybody, Mr. Akaka.

Mr. SKEEN. What do they do? Cut them and paste them together?

Mr. SIMPSON. Yes. Or sometimes they can flip it.

Mr. SKEEN. Flip it over and do the back-side.

Mr. AKAKA. Now how do you compare our problem with other developed nations?

Mr. SIMPSON. We have more of a problem, because the American dollar or American currency is the bartering mechanism for the world. I mean anyone will take a greenback.

No matter where you go, American currency is acceptable.

Mr. SKEEN. Universal demand.

Mr. SIMPSON. Yes, sir. That is exactly what it is, universal demand.

CREDIT CARD FRAUD

Mr. AKAKA. So let me switch to credit cards.

Mr. SIMPSON. Yes, sir.

Mr. AKAKA. The problems with credit cards are also increasing?

Mr. SIMPSON. Absolutely. They are becoming more of a vehicle for exchange. Over the last three to five years, what you see when you go to a restaurant is how many people use their credit cards for payment as opposed to cash.

There is an amazing increase in the use of credit cards which are now becoming a bartering mechanism. For instance, I went to breakfast this morning. I happened to arrive early. I paid for breakfast, and the guy looked at me strangely.

I asked him if something was wrong. He said no, but most everyone pays with a credit card. I have not seen anyone paying with money here lately, he said.

Mr. SIMPSON. I felt a little seedy afterwards. I thought maybe my tie was undone or something.

Mr. AKAKA. I am interested in your capacity to deal with this credit card fraud.

Mr. SIMPSON. We are doing exceptionally well, but we are only handling between five and seven percent of the fraud out there. What we are handling we are doing a good job at.

I do not mean to sound parochial. I guess I am. But at any rate, we are doing a heck of a job. I think if you ask the industry, we are doing an excellent job.

But the most important thing is helping the United States Government and the fact that last year we contributed probably $45 million to the tax base because of our efforts.

Now that is at around five to seven percent. If we could increase the percentage, obviously that dollar amount would be higher. We were also able, because of our responsibilities in the credit card area, to come up with information on—I know the Chairman is very familiar with this—the Bloods and Crypts in California. They thought those gangs were just unique to the California area.

It turns out that they are nationwide. We were able, because they used a couple of our credit cards, to find out that they were casing jewelry stores in Cincinnati, Ohio, and that they were doing several other things.

And because of that particular investigation, we now have—not only us but local Police and others have—warrants in about eight or ten midwestern states for some of these folks due to the robberies that have taken place.

We were also able to help solve a murder in New York within the last couple weeks. The New York State Police were very, very helpful. We were able to take a fingerprint off a particular credit card that had been stolen where the murders took place, and to develop it forensically to find the people who committed the murders.

There is an interrelationship with drug usage and the people who steal, alter, or produce counterfeit credit cards. There is an interrelationship between the druggies and this type of thing.

Most criminals do not do anything honestly. They will use a credit card to fly from the East Coast to the West Coast that is either stolen or altered, rather than pay like you or I would.

They get into some other areas much the same way, areas such as false identification.

Mr. AKAKA. In your experience, do you find that there is a need for consumer education?

Mr. SIMPSON. Absolutely. But the industry is doing a pretty good job. I have heard a couple of advertisements lately, and I know that companies send out information with their periodic bills.

They are trying very, very hard to do things like that.

Mr. AKAKA. Well, thank you very much.

Mr. SIMPSON. Thank you, sir.

VICE PRESIDENT'S RESIDENCE

Mr. ROYBAL. Thank you, Mr. Akaka.

I would like to ask you some quick questions which are more specific, and that is with regard to the $2.5 million for the Vice President's residence.

What is that going to be used for?

Mr. SIMPSON. There is a building up there that is about 90 years old. It is one of historical consequence. So we cannot knock the building down, nor should we. Based upon a study that was done by an architectural firm, they said we should rehabilitate the place.

For instance, the joists on the first floor almost collapsed, and our people almost went with them. They needed to go in there and shore it up.

The building was used for a repair facility for cars, so there are some environmental problems there.

We have gone in and done the very best we can. It also has a very commanding position as far as our security apparatus is concerned around the Vice President's residence.

And very candidly, I think the money that would be expended to refurbish it, would be very well spent because of all the implications. You could not build anything like it again for that money.

Mr. ROYBAL. But the main building where the Vice President is living, that is also 90 years old or more.

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. And we have been interested in refurbishing the building.

Mr. SIMPSON. Yes.

Mr. ROYBAL. Congress put in some money last year for this year.

Mr. SIMPSON. Yes.

Mr. ROYBAL. About $250,000.

Mr. SIMPSON. Yes.

Mr. ROYBAL. The committee was criticized about it. But I think it was needed and we had to do it. My original thought was that what we should do when we first went in there is just to leave the outside, go inside to the shell, and just start all over again.

We did not do that. Now is this full amount of $2.5 million going to be used for that purpose?

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. To shore the building up, refurbish it, do all the things that are necessary there.

Mr. SIMPSON. And that will also include whatever equipment we need to put in that building.

Mr. ROYBAL. To put in that building.

Mr. SIMPSON. Yes.

TECHNICAL SECURITY

Mr. ROYBAL. All right. Now the other question with regard to also a specific amount. The $2 million for tightening the security program, tightening security counter-measures program.

Mr. SIMPSON. If you would be so kind, sir, we would like to explain that in executive session. I would be glad to explain to you any of those types of things. It has a lot of security ramifications to it.

Mr. ROYBAL. All right. Is it absolutely necessary that that $2 million be in the budget?

Mr. SIMPSON. I am afraid so, sir.

Mr. ROYBAL. Will that improve to a great extent your current communications equipment?

Mr. SIMPSON. The $2 million?

Mr. ROYBAL. Yes.

Mr. SIMPSON. Most of that $2 million is in other areas. I will be more than glad to give you all the information in executive session.

HOWLEY TRAINING CENTER

Mr. ROYBAL. Okay. Then I would like to get that information as soon as possible.

I understand that you are almost nearing completion of construction at a building in Beltsville, Maryland. Is that in Prince Georges County?

Mr. SIMPSON. Yes, sir. It is in Congressman Hoyer's district.

Mr. ROYBAL. Oh, it is?

Mr. SIMPSON. Yes, sir. And I am in Congressman Hoyer's district also, sir. He is a very fine Congressman, sir.

Mr. ROYBAL. But it is in his district?

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. And I agree, he is a fine Congressman.

Now what training are you planning there?

Mr. SIMPSON. We conduct all of our protective training and all of our advanced training there. For instance, our ranges are out there so we are able to provide Secret Service firearms training which is a little different than some of the others.

Mr. ROYBAL. Is that the same kind of training one would get at Glynco?

Mr. SIMPSON. Not necessarily. For instance, we send all of our troops to Glynco, both uniformed officers and agents during the first eight weeks which gives them a core type of education in the enforcement area.

When we get them back, then we put them through at least eight or nine weeks of Secret Service intensive training which is pertinent only to the Secret Service.

Mr. ROYBAL. That is done where?

Mr. SIMPSON. That is done at the Rowley Training Center in Beltsville, sir.

Mr. ROYBAL. I see.

Mr. SIMPSON. The reason why I mention the shooting is because of our responsibility. We shoot a little differently than some of the other agencies do.

For instance, we do not go into a crouch when we shoot. We stand so that we can be between whomever is shooting and our protectee.

So we have to adjust accordingly.

BIENNIAL CONFERENCE

Mr. ROYBAL. All right.

Now you also requested a $15,000 appropriation to host the Biennial Conference of the Organization of Women.

Mr. SIMPSON. $15,000.

Mr. ROYBAL. $15,000, yes. When is that conference going to be held?

Mr. SIMPSON. It is going to be held in November, sir.

Mr. ROYBAL. Will you give us, for the record, a breakdown of your personnel?

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. I would like to know how many women there are.

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL. How many hispanics, blacks, so forth.

Mr. SIMPSON. Yes, sir.

[The information follows]

MINORITY STATISTICS

The number of female and minority staff on board as of December 31, 1989, is as follows:

	Special agent	UD officers	Other	Total
Male:				
White	1,630	815	458	2,903
Black	101	183	105	389
Hispanic	77	21	18	116
Asian/Pacific Islander	18	2	15	35
American Indian	6	0	1	7
Total	1,832	1,021	597	3,450
Female:				
White	84	43	462	589
Black	10	27	278	315
Hispanic	2	1	36	39
Asian/Pacific Islander	0	0	17	17
American Indian	1	0	2	3
Total	97	71	795	963

FOREIGN TECHNICAL ASSISTANCE

Mr. ROYBAL. I would appreciate that. You are also requesting $50,000 to provide technical assistance and equipment to foreign law enforcement organizations.

Mr. SIMPSON. Yes.

Mr. ROYBAL. Is this strictly for counterfeit investigations?

Mr. SIMPSON. Mostly it is for counterfeiting—and I do not mean this derogatorily—but there is a lack of sophistication in some of the areas that we need help in; not in the way they make the notes, because that is not the case.

But we have one note just to show you how good they are. The equipment that the law enforcement people have is archaic to say the very least. Some of the things that we can come up with shows you what kind of sophistication they have.

[Counterfeit bills are presented to the committee.]

Mr. ROYBAL. These are different. Those were twenties. Those were office machine copies only?

Mr. SIMPSON. Yes.

Mr. ROYBAL. These are a whole different procedure.

Mr. SIMPSON. Yes.

Mr. ROYBAL. It seems to me that these would be rather easy to pass out.

Mr. SIMPSON. You bet they would, sir.

Mr. ROYBAL. How would the bank clerk, how would he——

Mr. SIMPSON. With some difficulty.

Mr. ROYBAL. He would not know?

Mr. SIMPSON. Probably in that case he would—a lot of it involves having tremendous sense in their fingers. If you run your hand along the back side of that, because of the printing—you would not find it on those because they are all counterfeit—but on a genuine bill.

Many of them run their hands along the back of a bill and they can distinguish that it does not feel like it should.

But you take a lot of people, for instance, I do not have an awful lot of feeling in the tips of my fingers for a lot of reasons. If I run my hand along there, I do not really get the same feeling as someone who may be a bank clerk.

Those are exceptionally good bills, and that is one of the reasons why we need some help from foreign law enforcement agencies.

Mr. ROYBAL. The dollar amount that you are requesting for that purpose is, $50,000?

Mr. SIMPSON. We are trying as best we can to be as judicious with the budgetary problems. We could ask you for $50 million and probably be able to spend every cent of it. But the fact of the matter is that we are trying to be as responsible as we can and obtain as much cooperation as we can from some foreign law enforcement agencies who do not have the sophistication and the equipment.

We can take care of the budgetary problems with that.

302B ALLOCATION

Mr. ROYBAL. One last question, and this is perhaps one of the most important questions of all. Because of budgetary restraints, we cannot at this time predict what our 302[B] allocation is going to be, but accepting the fact that it could be less than desirable.

If that were the case, what would happen if the committee could not recommend the appropriation of an additional $31 million for your operation?

Mr. SIMPSON. To be honest with you, Mr. Chairman, I do not know. We would have to forego a lot of things. We would have to hit areas. For instance, Mr. Wolf's question on moves. We would have to cancel all of the moves.

Not only would it hurt us in the area that Mr. Wolf suggested, but it would also present some upward mobility problems since people have to move around. We try to put people where the work is.

If you do not have the money to move people, then obviously you have problems. We would have to cut back on our vehicle fleet. We have cut back on it the last two years. Even OMB realized that we were running into a problem, so they put a million dollars in the budget to help us try to alleviate some of the problems.

We would have to cut back on equipment, and we would not get any voice privacy as Mr. Skeen had asked about. And then last, sir, but not least, as I mentioned today—and I do not want to be dramatic—but to put anybody out on the street to me is just unconscionable.

Mr. ROYBAL. I hope we do not have to do anything like that. But we will do everything we possibly can not to do that. Since we do not know, we cannot promise.

Mr. Simpson, we have questions from other Members of the committee——

Mr. SIMPSON. Yes, sir.

Mr. ROYBAL [continuing]. That we will submit for the record and ask you to answer them as soon as possible.

Mr. SIMPSON. Thank you very much.

Mr. ROYBAL. I would like to thank you, Mr. Simpson, for your courtesy, for your presentation.

Mr. AKAKA. May I?

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. Yes. Just following up on that consumer education. Do you have a consumer program out of your office?

Mr. SIMPSON. No, we do not, but we encourage the private sector to get into it as much as they possibly can. We feel that is their responsibility. They are very good about that, Mr. Akaka. They have done a very good job.

Mr. AKAKA. Thank you.

Mr. ROYBAL. Thank you very much.

[The following questions were submitted to be answered for the record:]

Questions from Congressman Hoyer

Investigative Cases

Mr. Hoyer: Literally in every category, be it Check Forgery, Bond Fraud, Computer or Direct Deposit Fraud, Credit Card, and Other Investigations, there is a decrease in the cases received between 1987 and 1989 - why is this? Is this due to less manpower or a decrease in the criminal activity?

Mr. Simpson: Before addressing the specific decreases in various investigative activities during the period FY 1987 through FY 1989, it is important to review campaign related protective activities occurring during the same span of time.

The Presidential Campaign was underway during all of FY 1988. That alone is the reason investigative activities declined dramatically during FY 1988. What is sometimes overlooked is that significant campaign activities continued during the first four months of FY 1989. Campaign activity was at its height during October and November of 1988. Protection of then Vice-President-Elect Quayle was established after the election; his travel and that of then President-Elect Bush did not diminish and in fact continued at the campaign rate through the inauguration in January, 1989. This is evidenced in the number of protective surveys conducted during FY 1989 (9,211 vs. 8,161 in pre-campaign FY 1987).

When evaluating investigative performance, it should be noted that among our various investigative activities, protective research and counterfeiting are "non-discretionary" in the sense that these investigations must be undertaken when suspected crimes are reported. A comparison of the amount of work in those areas shows very little fluctuation, with the expected increase in protective research cases (threats, incidents, etc) during the campaign year when the number of protectees swelled.

The Secret Service exercises some element of control or discretion over other investigative activities - most notably credit card and computer fraud. These jurisdictions represent a significant portion of our work. It is only through the exercise of cost effective screening techniques across the board within our discretionary investigative activities that we have been able to make manpower available to pursue investigations in these high economic impact cases.

When protective activities increase, it is from those investigative areas we withdraw manpower. The decrease in production is both planned and expected. Our concern is that once the protective duties diminish, we are able to redirect efforts back to those areas. Given the statistics generated for FY 1989 during, essentially, the latter two-thirds of the year, we believe that did happen.

Thus for the first one-third of FY 1989 our personnel were still deeply involved in campaign-related protective duties. When that is taken into account, it is apparent that our investigative

activities did not realize any significant post-campaign relief in terms of available staff-hours until after the inauguration. Our FY 1989 investigative statistics rebounded during the last two-thirds of the year and almost reached the level of pre-campaign involvement.

In addition, the following comments specific to each of the investigative areas, may serve to further explain the statistical differences encountered in comparing fiscal years 1987 through 1989:

Check and Bond Forgery Investigations

The reduction in cases received between 1987 and 1989 is largely due to increased emphasis by all government agencies on the use of direct deposit for government checks.

In addition, we have revised our Memorandums of Understanding (MOU's) with the Check Claims Group and the Bureau of the Public Debt to limit case referrals to those checks and bonds with a face value which is likely to be accepted for prosecution if successfully investigated. Currently, those amounts are $250 and $300 for checks and bonds, respectively.

It is important to note that although the number of check cases referred declined by approximately 47% (23% for bonds) during the period FY 1987 to FY 1989, the number of check case arrests declined by only 22% (16% for bonds). These figures reflect the fact that the reduction in referred cases has enabled the Service to focus on cases of sufficient significance to warrant investigation and prosecution.

Counterfeit Investigations

Currently, in FY 1990, arrests, plant suppression, seizures and passing activity are at an all time high.

Using the number of "cases received" does not reflect an accurate measure of counterfeit activity. A more accurate measure is the comparison of cases to number of arrests effected. In FY 1987, 16,352 cases were received and 1,943 arrests were made. This amounts to an arrest for each 8.4 cases reported. In FY 1988, there were 12,868 cases and 1,597 arrests, a ratio of one arrest for every eight cases. In FY 1989 there were 15,348 cases resulting in 1,809 arrests, a ratio of 1 to 8.5. Overall the number of cases did decrease but there was no appreciable difference in the ratio of cases received to arrests.

The decrease in cases received does not reflect the decrease in the unmeasurable statistic of what would have been reported if agents had not aggressively investigated and seized counterfeit before it was passed on the public. Indeed, the amounts for both passed and seized before passing, increased each year between FY 1987 through FY 1989.

Note: In FY 1988 there is an upward blip in the seizure category, caused by three of the largest seizures in U.S. Secret Service history.

To summarize, it should be noted that even though statistics on cases may change and vary based on the shifting of manpower into protective activities during peak periods, productivity in the area of counterfeit investigations remains essentially the same.

Fraud Investigations

Debit and Credit Card Fraud

The reduction in debit and credit card investigations received by the Secret Service during the period FY 1987 through FY 1989 is due to neither a reduction in manpower nor a decrease in criminal activity.

Industry sources indicate that while fraud losses sustained in 1988 were $835 million, that figure is expected to increase incrementally by 57% to $1.3 billion by 1991.

Based on industry reported losses in 1988, the Service's investigative activities impacted on slightly over 5% of the fraud experienced by the credit card industry. In using the Service's limited resources most effectively, it has been our goal to seek out those cases which impact to a greater degree on total losses. Thus, although there were fewer cases accepted as referrals, the economic impact of those cases was greater.

Debit and credit card fraud investigations received declined by 13% from FY 1987 to FY 1989. However, during the same period, arrests declined by only 9% while the dollar value of attributable fraud losses in these cases rose 37%. In addition, the number of cases pending at the close of each year increased 21%.

These statistics indicate that while the time spent investigating each case increased, resulting in fewer cases investigated, so too did the number of arrests per case and economic impact of each case rise. These figures clearly represent an increase in the quality of cases investigated.

Direct Deposit and Electronic Fund Transfer (EFT) Fraud

When the Secret Service began investigating this crime in 1982, efforts were made to receive all of the referrals available from the various program agencies. At that time the goal was to examine and understand the magnitude of the problem and to take appropriate action within the criminal justice system.

Within a few years it became apparent that this type of investigation often did not meet the prosecutive guidelines of the judicial districts in which the offenses occurred. As a result,

the Service requested the program agencies to screen and only refer cases meeting specific guidelines. The results of those efforts can be seen in the dramatic drop in cases received from 1987 to 1989.

As the Service continues to direct its efforts towards investigations with significant economic impact, further reductions in this area are anticipated. Nonetheless, about one arrest is made for every ten investigations of this type of case received, as opposed to about four arrests per ten investigations received in other types of fraud cases.

Although Direct Deposit and EFT cases are routinely received by the Secret Service, investigations are only opened and conducted if warranted, based on prosecutive merit. The best indicator of workload in these types of cases would be "open" investigations.

Computer Fraud

Although there was a slight decrease in computer fraud related investigations received from FY 1987 to FY 1989 (119 vs. 114), the relatively small number of investigations involved makes the decrease statistically insignificant. The number of arrests remained almost constant, with 44 arrests made in FY 1987 and 45 in FY 1989.

These statistics indicate that investigations undertaken in this realm are being carefully screened. The computer crime law, 18 USC 1030, was first passed in 1984 and was revised in 1986. These cases are, for the most part, extremely complex at both the investigative and trial preparation stages.

With the passage of time and as this law matures, and with the assimilation of computers into society, we anticipate dramatic growth in this investigative activity.

FY 1991 Program Increases

Mr. Hoyer: This budget has a substantial increase. Does this increase handle total costs for a current services budget for FY 1991? What amount would be required to operate at a current services level?

What amount of that is for program increases?

What will not get done in program increase accounts due to the shortfall in pay and benefits accounts?

Mr. Simpson: The FY 1991 Budget Request for the Service does not include all of the funding necessary for a current services budget. An additional $12.8 million would be required to cover known cost increases and allow the Service to operate at the

current level. Of this amount, $8.1 million is needed to fund the increased costs of administratively uncontrollable overtime, $3.2 million for half of the increased costs for the executive level and comparability pay raises in FY 1991, and $1.5 million to keep up with the forecasted level of inflation.

Included in the Service's FY 1991 Budget are requests totalling $26.6 million for program increases.

Over the past several years, the Service has made an all-out effort to reduce its spending levels to the minimum amount possible in order to accommodate unfunded increased costs within its budget. However, the Service is now at the end of the road as far as being able to absorb additional costs without causing a serious degradation in its ability to meet mission responsibilities. Quite simply, to absorb large increased costs, the Service will be forced to investigate fewer cases and take risks in the area of protection that, from a professional viewpoint, are unacceptable.

The options for the Service to operate in fiscal year 1991 with the budget request now before the Committee are limited. One alternative would be for the Service to make basic program reductions. This could be accomplished by further cutting back on the funds available to support personnel in accomplishing their missions; i. e. cutting back on buying much needed replacement equipment and maintaining technological parity with the criminal element. Or, program reductions could be made by reducing personnel. Another alternative could be for the Service to forego some of the program initiatives included in the FY 1991 Request.

The impact on the Service's programs of having to follow through on one or both of these options would be very serious, especially in light of what has already been taken in program reductions in order to absorb for prior cost increases. Specifically the impact would be:

<u>Further Non-Personnel Base Reductions</u>

Because of absorptions required in FY 1989 and FY 1990, the Service was unable to -

replace any investigative sedans in FY 1989 and will only replace a small number in FY 1990. Even OMB has recognized the seriousness of this situation by allowing an additional $1 million in the FY 1991 budget for this purpose.

make the number of Permanent Change of Station (PCS) moves necessary to allow the proper development of investigative and protective personnel. To further reduce the number of moves would be extremely detrimental to the operational needs of the Service.

continue the implementation of the radio voice privacy program at the pace that was originally authorized by the Congress through the appropriations process. This program is vital to the successful accomplishment of protective and investigative missions.

continue the implementation of technical security and countermeasure programs as necessitated by the continual advancements made in these areas by those who seek to do harm to the Service's protectees.

To continue these practices serves to further erode the ability of the Service to meet its responsibilities.

Reduce employment

The Service will need, at a minimum, all of its current staffing to successfully achieve its mission in FY 1991. FY 1991 is the start-up period for the 1992 Presidential Campaign. To meet the protective responsibilities requires extensive planning and preparation efforts. During the campaign itself, a large percentage of the staff will be devoted to it. It would be unimaginable to cut personnel strength right as the Service is preparing to face the one year out of every four that is most demanding on its resources.

As an aside, during the FY 1986 Gramm-Rudman-Hollings sequestration, the Service instituted a one-for-two hiring freeze. After the freeze was lifted, the Service was left with many vacancies. These vacancies persisted long after the freeze ended. Because of these vacancies, OMB reduced the authorized FTE level in FY 1989 by 170. The risk of losing staff is too great, and puts the success of the Service's operations in such jeopardy, that, as an alternative for making program reductions, it is clearly unacceptable.

Forego Program Initiatives

The remaining alternative would be to forego some of the program increases included in the FY 1991 Budget Request. This sort of action would have a severe negative impact on the operation of the Service.

This might require the Service not being able to-

further improve the security of the White House Access Control System.

renovate the Command Post at the Naval Observatory.

fully prepare for the 1992 Presidential Campaign.

begin a systematic replacement of armored vehicles.

renovate the New York Field Office.

upgrade ADP and Communications programs

As can be seen from their respective justifications in the Budget Request for FY 1991, these program initiatives are all vital to the Service's ability to meet its various mandates.

Fort Meade Training Requirements

Mr. Hoyer: How will the surplusing of the 9,000 acres at Fort Meade impact on the training of the Secret Service? If the property is sold for development instead of retained as federal space by another federal agency, like the Department of the Interior, where will you do long range rifle training? What would the anticipated expense of a new long range be, or travel costs to another range?

Mr. Simpson: The Secret Service has conducted firearms training on Range 10 at Fort Meade since 1972. The primary users of this range are the Service's Counter Sniper and Counter Assault Teams, whose mission is to provide essential protection for the President, Vice President and visiting foreign heads of state.

These two units use Range 10 for both day and night firearms training from three to five days each week. Operational necessities and training standards require team members to qualify with their weapons at distances in excess of 100 yards. Marksmanship training at the James J. Rowley Training Center is limited to distances of 100 yards or less. Because of the urbanization in the surrounding area, there is no possibility of constructing ranges with longer shooting distances at the Rowley Training Center.

Since we have exclusive use of Range 10, we are able to schedule our training when operational commitments permit. Range 10 also provides us the safeguard against unwarranted observation during training exercises.

There are two ranges that have the capacity for 100 to 1,000 yard marksmanship training if they would be available when we need them. The two ranges are located at the United States Marine Corps Base at Quantico, Virginia and at Fort A.P. Hill. Both of these ranges require travel time of one hour and two hours one-way, respectively, and would therefore increase our training time considerably. The driving time to Fort Meade is twenty minutes. These ranges also would not provide the Service with the security against unwarranted observation during training exercises, nor with the scheduling flexibility that the Service currently has with Range 10.

The loss of Range 10 at Fort Meade would impact on training in the following ways:

1) Four instructors and Counter Sniper personnel would have to travel from two to four hours a day for training and requalification, thereby reducing the actual time for training, or necessitating the paying of overtime.

2) The Counter Sniper Training Course, which is four weeks in duration, would have to be extended to allow for the additional travel time required to use the ranges at the U.S. Marine Corps Base at Quantico and at Fort A.P. Hill.

3) The Counter Assault Team instructor staff and operational personnel would have to travel two to four hours a day to conduct training (live fire instant action drills, night fire and known distance shooting).

4) The Counter Assault Team Basic School, currently three weeks in duration, would have to be extended to allow for additional travel time. An extensive part of this school is currently conducted at Fort Meade, Maryland.

The cost of a new range would require the purchase and development of a parcel of land approximately 3.1 miles long in the shape of a cone, with the impact area the widest part of the cone. The width of the impact area is determined by the angle of shots taken from the firing point.

The continued use of Range 10 at Fort Meade, Maryland, is critically important to the Secret Service; for maintaining vital marksmanship skills, and for the Service to meet its protective responsibilities.

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted by Congress	4,602	4,436	$370,785
Adjustments:			
Sequestration (P.L. 99-177)	0	0	(4,685)
FY 1990 Authorized Level	4,602	4,436	$366,100
FY 1991 Estimate	4,697	4,531	$397,640

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in thousands)

	ACTUALS		AUTHORIZED LEVEL		BUDGET ESTIMATE		INCREASE (+) OR DECREASE (-) FOR FY 1991					
	FY 1989		FY 1990		FY 1991		TOTAL CHANGES		PROGRAM CHANGES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
1, Investigations, Protection, and Uniformed activities: Suppression of counterfeiting, thefts and frauds relating to Treasury electronic fund transfers, debit and credit card fraud, computer fraud, food coupon fraud, government identification fraud, investigating check and bond forgeries, protection of individuals, buildings and grounds, and safeguarding Government securities	4,288	$345,296	4,436	$364,028	4,531	$386,046	95	$22,018	95	$4,535	--	$17,483
2. Other Security Programs		4,672		2,441		5,700		3,259		5,700		(2,441)
3. Candidate Protection Program		7,126		---		5,894		5,894		5,894		---
Unobligated balance available, BOY		(541)		(369)		---		369		---		369
Unobligated balance available, EOY		369		---		---		---		---		---
Unobligated balance lapsing		---		---		---		---		---		---
Total appropriation, authorized level and estimate	4,288	$356,922	4,436	$366,100	4,531	$397,640	95	$31,540	95	$16,129	--	$15,411
Permanent positions	4,514	---	4,602	---	4,697	---	95	---	--	---	--	---

Revised
February 12, 1990

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in thousands)

	Activity 1			Activity 2			Activity 3			Total		
	Investigations, Protection, and Uniformed Activities			Other Security Programs			Candidate Protection Program					
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
FY 1990 BASE	4,602	4,436	$366,100							4,602	4,436	$366,100
PROGRAM CHANGES												
1. Additional Positions	95	95	$9,055							95	95	$9,055
2. Technical Security Program			$1,075									$1,075
3. Technical Security Countermeasures Program			$780									$780
4. Permanent Protection Program (Armored Vehicles, Renovation of Bldg. 19 at Naval Observatory and Paint Booth)			$1,175			$2,500						$3,675
5. New York Field Office Renovations Project						$3,200						$3,200
6. Candidate Nominee Protection									$5,894			$5,894
7. Replacement Vehicles (Investigative Sedans)			$1,000									$1,000
8. ADP Program			$875									$875
9. Communications Program			$700									$700
10. Maintenance-Rowley Training Center			$352									$352
11. Program Reductions to Offset Pay Increases			($3,201)									($3,201)
12. Program Reductions to Offset Increased Cost of AUO			($5,754)									($5,754)
13. Program Reductions to Fund Increased Costs of Maintaining Current Levels for Basic Operational Expenses			($1,522)									($1,522)
TOTAL, PROGRAM CHANGES	95	95	$4,535			$5,700			$5,894	95	95	$16,129
OTHER CHANGES:												
Adjustments Necessary to Maintain Current Levels (MCLs):												
1. Annualization of FY 1990 Pay Act Increases			$2,011									$2,011
2. Increased Cost for Proposed FY 1991 Pay Raise			$5,944									$5,944
3. Increased Costs for EX/SES Pay Raise (P.L. 101-94)			$458									$458
4. Increased Cost of Administratively Uncontrollable Overtime (AUO) (P.L. 101-173)			$8,100									$8,100

Revised
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SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in thousands)

	Activity 1: Investigations, Protection, and Uniformed Activities			Activity 2: Other Security Programs			Activity 3: Candidate Protection Program			Total		
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
5. Increased Cost for Additional Compensable Day			$843									$843
6. Increased Cost of Health Insurance			$1,307									$1,307
7. Increased Cost of Benefits			$31									$31
8. Increased Cost of Workers Compensation			$724									$724
9. Increased Cost of Travel and Transportation of Persons			$1,557									$1,557
10. Increased Cost of Transportation of Things			$67									$67
11. Increased Cost of Rent, Communications and Utilities			$995									$995
12. Increased Cost of Printing and Reproduction			$50									$50
13. Increased Cost of Other Services			$1,399									$1,399
14. Increased Cost of Supplies and Materials			$322									$322
15. Increased Cost of Equipment			$674									$674
Subtotal, Adjustments Necessary to Maintain Current Levels			$24,482									$24,482
Non-Recurring Costs:												
1. Enhancements to Vice President's Residence			($1,890)									($1,890)
2. Technical Security Program			($315)									($315)
3. Technical Security Countermeasures Program			($1,332)									($1,332)
4. Communications Program			($90)									($90)
5. ADP Program			($144)									($144)
6. Consolidated Building			($95,300)									($95,300)
Subtotal, Non-Recurring Costs			($99,071)									($99,071)
TOTAL, OTHER CHANGES			$15,411									$15,411
Total, Increases or Decreases Compared with FY 1990 Authorized Level	95	95	$19,946	0	0	$5,700	0	0	$5,894	95	95	$31,540
TOTAL, FY 1991 CONGRESSIONAL REQUEST	4,697	4,531	$386,046	0	0	$5,700	0	0	$5,894	4,697	4,531	$397,640

Revised
February 12, 1990

U. S. Secret Service, Salaries and Expenses

SUMMARY JUSTIFICATION OF FISCAL YEAR 1991 BUDGET ESTIMATE

GENERAL STATEMENT

The Secret Service is responsible for protection of the President, the Vice President, and other officials; investigating counterfeiting of currency, check forgeries, and access device fraud; and protection of the White House and various other buildings within Washington, D.C. as mandated by 18 U.S.C. 3056 and 3 U.S.C. 202. In an effort to meet these requirements, the Secret Service is requesting 4,531 FTE positions and $397,640,000 in appropriated funds, an increase of $31,540,000 from the post sequester FY 1990 Appropriation level. The major focus of our FY 1991 budget request is on the continuation of ongoing programs, to provide for the safety of our protectees and enforce our investigative jurisdictions. The Secret Service plans to continue to make improvements in its daily operation with 95 additional FTE positions (comprised of Special Agents, a Special Officer and Support Personnel); and technology enhancements to our Permanent Protection, Technical Security, Communications, and ADP Programs. This budget also requests funding needed to make major renovations at the Service's New York Field Office and at the Command Post at the Vice President's temporary official residence.

Activity 1 - Investigations, Protection, and Uniformed Division Activities

A. Protection - The Service must provide for the protection of the President of the United States, immediate family members, the President-elect, the Vice President, or other officer next in the order of succession to the Office of the President, and the Vice President-elect, and the members of their immediate families, unless the members decline such protection; for the protection of a visiting head of a foreign state or government and accompanying spouse, and, at the direction of the President, other distinguished foreign visitors to the United States and official representatives of the United States performing special missions abroad; for the protection of a former President, the spouse of a former President until their death or remarriage, and minor children of a former President until they reach sixteen years of age, unless such protection is declined. Funds included in this activity also provide for the protection of the Secretary of the Treasury.

B. Investigations - The Service is also responsible for the detection and arrest of persons engaged in counterfeiting, forging or altering of any of the obligations or other securities of the United States and foreign governments; the investigation of thefts and frauds relating to Treasury electronic fund transfers; fraudulent use of debit and credit cards; fraud and related activity in

connection with government identification documents; computer fraud; food coupon fraud; tort claims, and other criminal and non-criminal cases.

C. Uniformed Division Activities - The Secret Service Uniformed Division protects: the Executive residence and grounds in the District of Columbia; any building in which White House offices are located; the President and members of his immediate family; the temporary official residence and grounds of the Vice President in the District of Columbia; the Vice President and members of his immediate family; foreign diplomatic missions located in the Washington metropolitan area; the Treasury Building, its Annex, and grounds; and such other areas as the President may direct on a case-by-case basis.

Activity 2 - Other Security Programs - This activity maintains control of all no-year funding required for the Secret Service. These funds are required during more than one fiscal year to successfully complete projects. In FY 1991 the Service is requesting a total of $5,700,000 for this activity. Of these funds, $2,500,000 is required for the renovation of the Secret Service's Command Post located at the temporary official residence of the Vice President, and $3,200,000 is required for the renovation of the New York Field Office.

Activity 3 - Presidential Candidate Protective Activities - The Secret Service is responsible for the protection of major Presidential and Vice Presidential candidates, as determined by the Secretary of the Treasury after consultation with an advisory committee. In addition, the Service is responsible for protecting the spouses of major Presidential and Vice Presidential candidates. Spousal protection may not commence more than 120 days prior to the general Presidential election. Funds in the amount of $5,894,000 will be required in the FY 1991 budget to fund the start-up protection costs of the 1992 Presidential Campaign. Start-up costs include the leasing of vehicles, equipping and transporting vehicles, communications equipment, the purchase of security related equipment and the training of Secret Service and Other Treasury Agents for use on protective details.

UNITED STATES SECRET SERVICE
Federal Funds

General and Special Funds:

Salaries and Expenses

For necessary expenses of the United States Secret Service, including purchase (not to exceed three hundred and forty-three vehicles for police-type use for replacement only) and hire of passenger motor vehicles; hire of aircraft; training and assistance requested by State and local governments, which may be provided without reimbursement; services of expert witnesses at such rates as may be determined by the Director; rental of buildings in the District of Columbia, and fencing, lighting, guard booths, and other facilities on private or other property not in government ownership or control, as may be necessary to perform protective functions; the conducting of and participating in firearms matches and presentation of awards; and for travel of Secret Service employees on protective missions without regard to the limitations on such expenditures in this or any other Act: [Provided, That approval is obtained in advance from the House and Senate Committees on Appropriations;] for repairs, alterations, and minor construction at the James J. Rowley Secret Service Training Center; for research and development; for making grants to conduct behavioral research in support of protective research and operations; not to exceed $12,500 for official reception and representation expenses; not to exceed $15,000 to assist in hosting the Biennial Conference of the Organization of Women in Federal Law Enforcement to be held during Fiscal Year 1991; not to exceed $50,000 to provide technical assistance and equipment to foreign law enforcement organizations, in counterfeit investigations; for payment in advance for commercial accommodations as may be necessary to perform protective functions; and for uniforms without regard to the general purchase price limitation for the current fiscal year; [$370,785,000] $397,640,000, of which [$2,100,000 shall remain available until expended for construction at the Vice President's Temporary Official Residence and of which] $2,500,000 shall remain available until expended for renovations at the temporary official residence of the Vice President and $3,200,000 to remain available until expended for renovations of the New York Field Office; and of which not to exceed $160,000 shall be made available for the protection at the one non-governmental property designated by the President of the United States under provisions of section 12 of the Presidential Protection Assistance Act of 1976 (18 U.S.C. 3056 note). (Treasury Department Appropriations Act, 1990).

EXPLANATION OF LANGUAGE CHANGES

The phrase "not to exceed $15,000 to assist in hosting the Biennial Conference of the Organization of Women in Federal Law Enforcement to be held during Fiscal Year 1991" has been added to provide general conference support for the next biennial conference sponsored by the Organization of Women in Federal Law Enforcement. This organization serves to foster female recruitment and promotions in the Federal law enforcement environment, to address gender specific workplace issues, and to confront stereotypes affecting females in traditionally male law enforcement positions.

The Secret Service also strives to promote these goals. Particular emphasis is placed on attracting female and minority Special Agent and Uniformed Division Officer candidates.

Women constitute a valuable asset to the Secret Service, as well as the entire law enforcement community. The competition for qualified applicants in law enforcement is extremely keen. It is critical that the pool of qualified applicants be as large as possible. Retirement induced attrition and the dwindling potential applicant pool threatens the Service's ability to maintain the size and quality of its workforce.

This organization's success will promote the role of women in law enforcement and thereby increase the size of the qualified applicant pool. Any support that the Service is authorized to provide will undoubtedly promote these aforementioned goals and be a source of strength to the federal law enforcement community.

The phrase "to provide technical assistance and equipment to foreign law enforcement organizations, in counterfeit investigations" has been added to authorize the Secret Service to provide equipment as appropriate to foreign law enforcement organizations and to provide them with assistance. This greatly benefits the Service's investigative efforts by fostering the cooperation and assistance of foreign police organizations.

The phrase "of which $2,500,000 shall remain available until expended for renovations at the temporary official residence of the Vice President" has been added to accommodate major renovations of the Secret Service Command Post at the residence on the grounds of the Naval Observatory. These renovations are required due to safety hazards currently existing at this Command Post.

An independent architectural and engineering contractor has completed an in-depth survey of renovations required for this 97 year old building. During the inspection of the building, dry rot, insect infestation and extensive delamination to the building's first floor joists was discovered. As a result of this extensive damage, the first floor has been temporarily shored and braced until sufficient funds become available for renovations.

The phrase "and $3,200,000 to remain available until expended for renovations of the New York Field Office" has been added to accommodate major renovations of the New York Field Office.

The phrase "Provided, That approval is obtained in advance from the House and Senate Committees on Appropriations and Senate Committees on Appropriations", has been deleted so that the Service can exceed the overall limitation on the amount of funding obligated for travel, as protective circumstances may dictate.

U. S. Secret Service, Salaries and Expenses

SELECTED WORKLOAD DATA

Activities and Principal Workload Factors		1989 Actual	1990 Estimate	1991 Estimate	Percent Increase or Decrease (1991 over 1990)
Cases Pending Beginning of Year	Counterfeit Cases	4,098	4,479	4,500	
	Check Cases	51,720	41,829	42,000	
	Bond Cases	4,263	4,236	4,000	
	Fraud Cases	21,213	12,492	12,500	
	Protective Research	1,886	1,781	2,000	
	Other Criminal & Non-Criminal	12,748	13,706	13,000	
Total		95,928	78,523	78,000	-1%
Cases Received	Counterfeit Cases	15,348	15,000	15,000	
	Check Cases	62,216	65,000	65,000	
	Bond Cases	3,292	3,000	3,000	
	Fraud Cases	14,450	20,000	25,000	
	Protective Research	7,894	11,000	13,000	
	Other Criminal & Non-Criminal	37,984	45,000	45,000	
	Total	141,184	159,000	166,000	+ 4%
Totals to be Investigated		237,112	237,523	244,000	+ 3%
Cases Closed	Counterfeit Cases	14,712	15,000	15,000	
	Check Cases	68,185	65,000	60,000	
	Bond Cases	2,900	3,000	3,000	
	Fraud Cases	15,190	20,000	25,000	
	Protective Research	7,949	11,000	13,000	
	Other Criminal & Non-Criminal	42,988	45,000	45,000	
	Total	151,924	159,000	161,000	+ 1%

Note: The Cases Pending at the beginning of 1990 are taken from the Secret Service Case Control System and reflect adjustments for cases that are reopened, corrected or deleted during the year.

SUMMARY OF EMPLOYMENT
(Number of Full Time Equivalent Positions)

	Actual 1989	Estimated 1990	Estimated 1991	Increase/Decrease for 1991: Total Changes	Increase/Decrease for 1991: Program Changes	Increase/Decrease for 1991: Other
Special Agents	1,916	1,946	2,024	78	78	--
U. S. Secret Service Uniformed Division (Officers only)	1,036	1,095	1,095	0	0	--
All Other	1,336	1,395	1,412	17	17	--
Total Full-Time Equivalent Positions	4,288	4,436	4,531	95	95	--

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EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET
AUTHORIZED LEVELS AND ADJUSTMENTS
(Dollars in thousands)

In response to Congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the United States Secret Service proposes the following adjustments in FY 1990 spending:

Object Classification	Original President's Budget	+ or - Congressional Action	Sequester Amount	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9 Total Pers. Compen.	$188,363	$2,384	($162)	$4,681	$195,266
12.0 Total Benefits	35,041	---	(2,303)	1,244	33,982
13.0 Benefits Form. Pers.	---	---	---	---	0
21.0 Total Travel	30,421	---	---	---	30,421
22.0 Total Transportation	1,599	---	---	---	1,599
23.1 GSA Rent	28,732	---	(1,000)	(1,500)	26,232
23.2 Other Rent	1,761	---	---	---	1,761
23.3 Total Comm. & Util.	19,144	---	---	---	19,144
24.0 Printing	714	---	---	---	714
25.0 Total Other Services	31,523	---	---	---	31,523
26.0 Total Supplies	7,986	---	---	(775)	7,211
31.0 Total Equipment	20,263	---	(1,220)	(3,650)	15,393
32.0 Land & Structures	2,809	---	---	---	2,809
33.0 Investments & Loans	---	---	---	---	0
41.0 Grants, Subsidies	---	---	---	---	0
42.0 Insurance Claims	45	---	---	---	45
44.0 Refunds	---	---	---	---	0
TOTAL	$368,401	$2,384	($4,685)	$0	$366,100

Activity					
Investigations, Protection, and Uniformed Activities	$366,301	$2,384	($4,658)	---	$364,027
Other Security Programs	2,100	---	(27)	---	2,073
Candidate Protection Program	0	---	---	---	0
TOTAL	$368,401	$2,384	($4,685)	---	$366,100

Revised
February 12, 1990

Explanation of Congressional Action

The FY 1990 Treasury Appropriation included additional funding above the President's Budget. The additional funding of $2,384,000 will be required to help offset a projected shortage in the Service's budget for personnel costs. The shortage has developed over a number of fiscal years as the Service has experienced increased costs in this segment of its budget, for such things as the new Federal Employees' Retirement System, pay raises, and health benefits. The Service has not received additional funding for these increased costs. Further, expenses in this area of the Service's budget are expected to significantly increase with the relatively heavy travel schedule maintained by the President. In addition, Gramm-Rudman-Hollings reductions of $4,685,000 reduced funding levels from the salaries, benefits, rent, and equipment object classes. This reduction includes a reduction of $162,000 to the base funding level for personnel compensation, $2,303,000 for Permanent Change of Station Moves, $1,000,000 from rent, and $1,220,000 from the base budget for replacement equipment.

Explanation of Reprogrammings

Due to the shortage in payroll accounts, the United States Secret Service proposes to adjust the FY 1990 budget originally submitted to the Congress by redirecting funds of $5,925,000 to the personnel accounts, to be derived internally as follows:

o Salaries	$4,681,000
o Benefits	1,244,000
o Rental Payments	(1,500,000)
o Supplies	(775,000)
o Equipment	(3,650,000)
Total	$ 0

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UNITED STATES SECRET SERVICE
Special Workload Data

Protective Research

Included in the protective function is the correlation and analysis of a mass of information obtained from letters, telephone calls and other sources, for the purpose of recognizing any potential danger to the President and his family, the Vice President and his family, other protectees and foreign diplomatic missions. The following statistics indicate the number of items received and reviewed in connection with Protective Research activities:

	Actual FY 1988	Actual FY 1989	(Estimated) FY 1990	(Estimated) FY 1991
White House Mail Room	6,073	3,263	3,500	3,700
White House Switchboard	6,126	4,464	5,000	5,200
Reports from Other Agencies	130,483	119,927	125,000	130,000
Reports from Field Offices	36,122	26,747	28,000	30,000
	178,804	154,401	161,500	168,900

Each report, letter or telephone call received must be handled on an individual basis by Protective Research personnel. Many items are necessarily reviewed more than once because of judgmental decisions and case review requirements. The Service has been very effective in improving its techniques in processing the volume of information. During Fiscal Year 1989, the Secret Service continued to initiate and implement concepts for further development in the areas of threat analysis, liaison, training and information systems.

Protective Research Cases

The table below reflects the statistics on these cases for Fiscal Years 1985 through 1989.

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1985	13,129	13,426	1,416	709	606	254
1986	9,635	9,159	1,873	410	400	244
1987	8,888	8,882	1,850	374	348	233
1988	11,488	11,424	1,886	378	410	190
1989	7,894	7,949	1,781	327	295	204

Counterfeiting

Counterfeit note passing activity increased as 388,581 counterfeit notes were passed on the public during Fiscal Year 1989. Of the $89.1 million in counterfeit notes and coins produced during Fiscal Year 1989, 84 percent was confiscated prior to being passed on the public. Listed below are statistics on counterfeiting activity for Fiscal Years 1985 through 1989.

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Counterfeit Notes Passed	Plant Suppression	Arrests	Convictions	Pending Court Action
1985	17,307	17,189	3,441	182,764	104	1,738	1,591	1,018
1986	16,978	16,574	3,492	200,898	129	1,682	1,579	966
1987	16,352	15,401	4,238	293,754	183	1,943	1,631	1,134
1988	12,868	12,779	4,098	283,884	158	1,597	1,365	1,241
1989	15,348	14,712	4,479	388,581	119	1,809	1,559	1,372

Dollar value of Counterfeit Notes and Coins Confiscated

Fiscal Year	Passed on the Public	Seized before being Passed on the Public
1985	6,926,858	61,732,462
1986	6,870,795	38,849,262
1987	9,322,816	62,261,289
1988	11,563,177	110,076,597
1989	13,843,549	75,257,792

Forgery and Fraudulent Negotiation of Government Checks

During Fiscal Year 1989, the number of check forgery investigations received totaled 62,216. A total of 68,185 check forgery investigations were closed, resulting in 2,847 arrests and a percent solved rate of 89 percent.

Check Forgery Statistics

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1985	92,373	101,360	53,453	4,719	4,297	1,654
1986	119,498	118,892	50,571	4,679	4,672	1,517
1987	116,645	109,026	55,003	3,638	3,747	1,320
1988	87,783	87,849	51,720	2,670	2,701	1,195
1989	62,216	68,185	41,829	2,847	2,675	1,278

Forgery and Fraudulent Negotiation of Government Bonds

The Secret Service received 3,292 bond forgery investigations in Fiscal Year 1989. The number of bond forgery investigations closed totaled 2,900 resulting in 25 arrests. The following statistics reflect activities for Fiscal Years 1985 through 1989.

Bond Forgery Statistics

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1985	5,420	6,502	7,714	67	50	58
1986	5,034	5,430	6,766	54	66	44
1987	4,261	4,936	5,008	36	44	36
1988	2,449	2,935	4,263	30	23	43
1989	3,292	2,900	4,236	25	29	37

Other Investigations

In addition to the primary missions of protection and investigations involving the violation of laws relating to counterfeiting and forgery, the Secret Service also is charged with investigations pertaining to:

1. Debit and Credit Card Fraud.
2. Direct Deposit and Electronic Fund Transfer Investigations.
3. Computer Fraud.
4. Food Coupon Fraud.
5. Government Identification Fraud.
6. Forging or counterfeiting of Government Transportation Requests.
7. Violations of certain criminal statutes pertaining to operations of the Federal Deposit Insurance Corporation, Federal Land Banks, Joint Stock Land Banks and National Farm Loan Associations.
8. Losses, shortages and thefts from imprest funds of cashiers operating under Executive Order 6166.
9. Claims under the Government Losses in Shipment Act.
10. Personnel Security Programs.

Other Investigative Statistics

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1985	80,413	60,445	37,562	2,002	1,533	976
1986	64,016	64,432	31,726	2,913	2,348	1,414
1987	63,919	60,846	32,036	2,912	2,765	1,426
1988	61,882	58,674	33,961	2,493	2,199	1,599
1989	52,434	58,178	25,598	2,584	2,215	1,823

Note: The decrease in cases received and the increase in cases closed from FY 1985 to FY 1986 represents the reclassification of several thousand check forgery investigations to fraud, embezzlement, and misrepresentation investigations, and is also due to the Service's new jurisdictions involving food coupon fraud, electronic fund transfer fraud, credit and debit card fraud, government identification fraud and computer fraud investigations.

Debit and Credit Card Investigations

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1985	1,881	1,041	894	550	227	---
1986	3,917	2,675	2,061	1,394	925	---
1987	4,316	3,656	2,583	1,844	1,697	793
1988	3,210	3,073	2,776	1,605	1,429	916
1989	3,752	3,214	3,135	1,673	1,386	1,115

Direct Deposit and Electronic Fund Transfer Fraud

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1985	7,916	8,582	4,939	67	58	---
1986	8,004	6,596	5,727	96	76	---
1987	17,085	11,047	11,240	89	99	24
1988	11,447	10,937	11,322	118	110	30
1989	10,144	11,533	9,033	114	101	38

Computer Fraud Investigations

Fiscal Year	Cases Received	Cases Closed	Cases Pending Close of Year	Arrests	Convictions	Pending Court Action
1987	119	57	68	44	35	5
1988	92	88	69	70	33	42
1989	114	94	86	45	44	43

Note: Investigations in the above areas are relatively new, and extensive data is not yet available. The data on this chart is also included in "Other Investigative Statistics".

THE DEPARTMENT OF THE TREASURY

U. S. Secret Service, Salaries and Expenses

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

FY 1991 funding requirements for the U. S. Secret Service are estimated to be $397,640,000 and 4,531 FTE positions. Total increases of $40,611,000 are offset by $9,071,000 in non-recurring costs to existing programs, resulting in a net increase of $31,540,000 over the FY 1990 funding level of $366,100,000.

TYPE OF INCREASE	FTEs	AMOUNT ($000)
Program Changes	95	$ 16,129
Maintaining Current Levels		24,482
Nonrecurring Costs		(9,071)
Net Increase	95	$ 31,540

	FTEs	($000)
TOTAL REQUESTED PROGRAM CHANGES	**95**	**$16,129**
1. Additional Positions	**95**	**$ 9,055**

The Service is requesting a total of 95 additional FTE and permanent positions. This request is comprised of 78 Special Agents for Investigative and Protective Programs and 17 support positions for Protective, Protective Research, and Administrative Programs.

A. Protection	3	$ 41

With the election of Vice President Quayle, the Service established a new detail responsible for the protection of the Vice President's children. As a result, a Special Officer is required for assignment to the Transportation Section of the Service's Special Services Division. Duties will include vehicle maintenance and driving support for the detail. This is a new protective responsibility.

The Service is requesting an automobile paint and body worker and an automobile body work assistant so the Service can repair and paint its protective fleet of vehicles without going to outside contractors. Currently, all paint and body work must be performed by a commercial vendor. While at the commercial vendor, Special Officers are required to maintain security of protective vehicles on a 24-hour-per-day basis.

With the election of President Bush, Presidential travel has increased by over 57 percent. Primary vehicles are needed for each stop of a Presidential trip. With this increased level of travel, primary limousines are used constantly and must be kept operational.

As with protective primary limousines, keeping the Uniformed Division's cruisers in service is crucial. On the average, 34 of the Service's cruisers require paint work and body repairs each year. There are no backup vehicles available.

Although not as crucial as the primary limousines and Uniformed Division cruisers, the Service must also limit the amount of time that regular limousines and armored backup vehicles are out of service. Approximately 40 percent of the Service's regular armored limousines and backup vehicles are painted each year.

If resources are provided for the Service to perform paint and body work internally, the Service will be able to cut the down time of maintaining protective vehicles from an average of 18 days per vehicle to three to five days. It will also allow us the flexibility of scheduling vehicles for paint work when it is convenient and rushing a paint job if it becomes necessary. Further, it would eliminate the current practice of sending out at least one vehicle per week for required sectional painting resulting from normal road hazards and minor accidents. It will also eliminate the need to maintain security of protective vehicles while at commercial vendors. The Service estimates a monetary savings of approximately $30,000 per year.

B. Investigations — 78 — $ 8,424

The Secret Service is requesting seventy-eight (78) Special Agent positions and $8,424,000 to remain abreast of the Service's increasingly complex and burgeoning workload in the credit card and computer fraud jurisdictions.

Investigative cases are now more difficult and labor intensive primarily because of the high number of financial transactions, presence of multiple suspects, and the use of sophisticated technology in committing these crimes. These cases entail a broader geographic scope, drug involvement, terrorism, and street gangs and are becoming more violent to work. The negative impact of these factors on our investigative personnel resources should not be underestimated. As the need arises, these resources will also be utilized to support the Service's protective mission.

The Secret Service has primary jurisdiction for all violations of Title 18, U.S. Code, Section 1029 (Access Device Fraud) that are initiated outside of a bank; for violations of Section 1030 (Computer Fraud) and for violations of Title 15, U.S. Code, Section 1693n (Electronic Fund Transfer Act). It is imperative to have the requisite personnel resources to adequately enforce these mandated jurisdictions.

The authoritative Nilson Report projects a 44 percent increase in sales volume in the bank-card industry and estimates that bank card fraud losses will escalate by approximately 57 percent by 1991. Using Nilson's projections, the percentage of financial impact of the Service's operations in this area in 1988 amounted to approximately five percent, or $69 million in fraudulent transactions. Without additional Agent positions, that impact figure will drop to around three percent by 1991. In addition, industry estimates show that Secret Service investigations prevented an additional $112 million in losses in 1988. Every staff hour spent on access device investigations saved the American public approximately $377 in 1988.

The ability of the Service to shift additional staff hours from its bond and check forgery investigations to balance the burgeoning increase in staff hours needed to work fraud cases has reached its limit. The Service has streamlined the number of staff hours devoted to non-fraud areas to meet the growing workload in credit card and computer fraud. Additional reductions in staffing to other areas is not possible without seriously jeopardizing the accomplishment of the Service's mandated responsibilities. During the last two years, counterfeit activity has increased dramatically, due to the growing relationship between counterfeiting and drugs. The obvious risk of a resource reduction in this area would be a sharp, unabated increase in counterfeit passing activity and a corresponding drop in confidence in the American dollar.

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The 78 Special Agent positions will allow the Secret Service to competently investigate six percent of the financial losses perpetrated on the public via access device and computer fraud. With the addition of these resources, a projected $171 million in fraud could be suppressed. In addition, the suppression of this level of fraud will result in the Government receiving an estimated $46.5 million more in corporate income taxes.

A recent and unexpected increase in our protective responsibilities has degraded our ability to adequately address our investigative program. During peak protection periods, the Service must redirect the majority of its Investigative staff to support protective activities, making the need for these requested positions even more critical. It is imperative that the Service be staffed with well-trained, experienced personnel who can successfully rise to the workload during those periods of peak protective activity, and who can also effectively enforce the vital investigative jurisdictions with which this Service has been charged.

C. Protective Research 12 $ 506

The Secret Service is requesting additional Communications Specialists. Due to the expansion of the Radio Voice Privacy Program, a tremendous increase in overall workload has been experienced as field office and resident agency radio systems are converted to the voice privacy system. The expansion program requires a high level of technical expertise to adequately install and maintain the complex radio equipment.

Additional Computer Analysts/Programmers are requested to support expanded Service-wide ADP programs. The requested positions will be utilized for Programmer and Computer Analyst support of ADP systems which provide intelligence information that is critical to the Service's protective mission. The positions will also provide in-house Computer Analyst support for various automated administrative systems.

Additional Technical Security Specialists are being requested in an effort to meet dramatic workload increases in the technical security program area. Many of the workload increases are the result of Executive Orders which mandate that certain security precautions and programs exist. To meet these requirements and to relieve personnel shortages that have developed, additional Security Specialists are required.

The Service is also requesting additional Intelligence Research Specialists positions. This request is the result of an increase in travel by our protectees in recent years. In order to prepare for these protective details, it is necessary to perform intelligence assessments for each individual city that the protectee plans to visit. Currently, the Foreign Intelligence Branch alone prepares an average of 300 assessments per year. These additional positions are required to ensure that intelligence reports are reviewed in a timely and efficient manner, and allow for the highest level of protection in both foreign and domestic cities.

D. Administration 2 $ 82

To be in conformance with the Federal Mangers Financial Integrity Act (FMFIA) the Secret Service is requesting a Property Management Specialist to manage the myriad of responsibilities associated with a new on-line Property Management System. These responsibilities include the maintenance of security requirements and control, maintaining/auditing the interface with the Financial Management and Accounting System (FMAS), identifying modifications/enhancements to the system, developing specifications for the implementation of identified enhancements, and acting as liaison within the Service with the Information Resources Management Division (IRMD) and Service-wide users to ensure systems applications are maintained.

Also, a Systems Accountant is requested to improve the management and operation of components of the new Financial Management and Accounting System (FMAS), support the Financial Management Division's inventory of microcomputers and related software, and review financial management systems to ensure continued compliance with the FMFIA.

2. Technical Security Program $ 1,075

A. White House Access Control System $ 800

Funds in the amount of $800,000 are being requested to enhance the security of the White House Access Control System. Security assessments have been completed on the White House Complex. Based on this assessment, the White House complex requires a modern, computerized access control system. The

proposed new system will require the use of proximity cards and personal identification numbers to access turnstiles at entry points.

31.0	Equipment	$ 400,000
32.0	Land and Structures	400,000
	Total	$ 800,000

B. White House Fire Detection System $ 150

Funds totaling $150,000 are being requested to acquire fire detection/suppression equipment to replace the current antiquated White House Fire Detection System. The current system is over 25 years old. By FY 1991, this system will have passed its expected useful life and will have become a very high replacement priority due to the threat of total system failure. The proposed new system would interface with the new White House HVAC renovation project planned to take place in fiscal year 1990.

31.0 Equipment $ 150,000

C. Mobile Direction Finding System $ 125

Funds in the amount of $125,000 are required to procure a Mobile Direction Finding System. Should a surveillance transmitter be discovered during monitoring this new system would allow for the transmitter to be located quickly.

This request is associated with a classified project. Additional information can be provided in a classified briefing.

31.0 Equipment $ 125,000

3. Technical Security Countermeasures Program $ 780

A. Classified Projects

The Service is requesting funds in the amount of $780,000 for the Technical Security Countermeasures program. The purpose behind this request is

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classified. Upon request, justification will be provided at a classified briefing.

25.0	Other Services	$ 330,000
31.0	Equipment	450,000
	Total	$ 780,000

4. Permanent Protection Program $3,675

A. Renovation of the Vice Presidential Protective Division's Command Post $2,500

The Service is requesting $2,500,000 to provide major renovations to the Vice Presidential Protective Division's command post (Building 19) located at the Naval Observatory. These renovations are required due to safety hazards currently existing at the Command Post.

An independent architectural and engineering contractor has completed an in-depth survey of renovations required for this 97 year old building. During the inspection of the building, dry rot, insect infestation and extensive delamination to the building's first floor joists was discovered. As a result of this extensive damage, the first floor has been temporarily shored and braced until sufficient funds become available for renovations.

The contractor's $2,500,000 estimate includes demolition, new construction, asbestos removal, new fuel tanks, temporary trailers and utilities, a new heating and air conditioning system, new plumbing, and a new electrical system.

Site development will include new electrical transformers, a new sewer system, new footers and shoring of the foundation, removal of an underground oil tank, a new underground water supply and a new access and parking area. Because of Building 19's past usage as an automotive garage and public works storage area, the soil will be tested for possible toxic chemicals.

The building will be totally gutted, leaving only the exterior walls, then rebuilt to the Service's specifications.

32.0 Land & Structures $2,500,000

B. Emergency Generator-Vice President's Residence $ 50

In addition to the above renovations, the Service is also requesting $50,000 to install an additional emergency generator to ensure ample power in the event of an emergency. Due to increased power requirements, the current emergency generator has reached its capacity.

31.0 Equipment $ 50,000

C. Armored Vehicle Program $ 1,075

Funds are requested for FY 1991 to begin systematic replacement with five vehicles equipped with state-of-the-art armor.

When a commercially bought vehicle is retrofitted with ballistic armoring, the certified gross weight of the vehicle is exceeded. To hold this additional weight, every stress point in the vehicle is changed, and because of this the overall expected useful life of the vehicle is shortened. The average productive life of an armored vehicle is eight years.

By FY 1991, half of the Service's current fleet of limousines will be ten years old. These vehicles are already experiencing mechanical problems and have become very expensive to maintain.

25.0 Other Services $1,075,000

D. Paint Booth $ 50

The Service is requesting $50,000 to purchase a paint booth to be used by the paint and automobile body worker and automobile body work assistant.

31.0 Equipment $ 50,000

5. New York Field Office Renovation Project $ 3,200

In order for the New York Field Office to remain at its current World Trade Center location, renovation of more than 37,000 square feet of office space at a cost of $3,200,000 is necessary. The requested renovations will improve poorly configured space,

solve management control and security problems, and provide for much needed special facilities that do not currently exist. All this is to be done without acquiring additional space.

GSA evaluated conditions in the New York Field Office and identified it as a candidate for the Quality Work Place Environment Program (QWEP). Subsequently, GSA provided funding for review of the space by a professional space planning firm, which prompted this request. The QWEP was designed for GSA's Central Office to select project proposals and fund them with no agency pay back requirement. GSA agreed that the New York Field Office met all the requirements as a QWEP project. In FY 1989, however, the Service was informed that no QWEP money had been set aside for even the approved projects, although the New York Field Office was described by GSA as deplorable. Thus, the Service is requesting the appropriate funding to complete this project.

New York is the largest and busiest Secret Service field office. A recent report prepared by the Service's Office of Inspection cited general appearance of the office as a factor affecting morale. It noted that the plan for renovation was one of the few positive statements made about the existing conditions. Completion of the renovation project will be a factor in boosting morale, increasing employee retention, increasing productivity, and improving utilization of current staff. This renovation project will be timed to coincide with a GSA ceiling replacement project, thus saving the Service $900,000.

This renovation would also eliminate the temporary coordinating centers currently set up in hotels in conjunction with U.N. General Assembly Sessions. This will save an estimated $39,600 per year.

25.0 Other Services $3,200,000

6. Candidate Nominee Protection $ 5,894

As a result of Public Law 90-331, the Service is required to provide protection to major Presidential and Vice Presidential candidates, nominees and their spouses.

The Service is requesting $5,894,000 to fund start-up costs related to the 1992 Presidential Campaign. Start-up costs include $69,000 for leasing, equipping and transporting vehicles, $4,509,000 for communications equipment, $252,000 for the purchase of security related supplies and equipment, $764,000 to train 1,400 Secret Service

employees and 1,600 Other Treasury Department Agents for use on protective details, and $300,000 for overtime related to start-up activities.

11.5	Other Personnel Compensation	$ 300,000
21.0	Travel and Transportation	751,000
22.0	Transportation of Things	8,000
26.0	Supplies & Materials	193,000
31.0	Equipment	4,642,000
	Total	$5,894,000

7. Replacement Vehicles (Investigative Sedans) $ 1,000

The Secret Service must ensure that its fleet of investigative sedans meets its needs. Currently, it does. However, in order to maintain this fleet it is critical that unreliable vehicles, whose mileage and maintenance costs have become excessive, be replaced.

By FY 1991 the overall age of our vehicle fleet will have increased by two years, with more than 300 vehicles having logged in excess of 70,000 miles. Funding that was previously available for the replacement of these vehicles is currently needed to fund the personnel accounts. In FY 1989 we did not purchase any replacement investigative sedans. The budgeted funds were required in the personnel compensation and benefits accounts. It is presently anticipated that funding will not be available to purchase replacement vehicles in FY 1990 due to continued shortages in these accounts. This request begins to restore the base budget needed to maintain the investigative sedan fleet.

The Service has particular concerns that the continual delays in restarting its vehicle replacement program will come at a great cost. That is, continued escalation of maintenance costs associated with the aging of its fleet and a decrease in the reliability and availability of vehicles necessary to meet critical mission requirements. Re-establishment of this funding, at least in part in FY 1991, is of paramount importance.

31.0	Equipment	$1,000,000

8. ADP Program $ 875

A. Mainframe Computer Upgrade $ 500

The Secret Service is requesting funds in the amount of $500,000 for upgrades to the mainframe computer system. This funding increase is required to meet the FY 1991 negotiated contract costs for additional tape, disk throughput, and capacity. This request supports the anticipated growth in database files and system utilization.

23.3	Communications, Utilities, and Other Miscellaneous Charges	$ 500,000

B. Enhancements to the Property Accounting System $ 375

Funds in the amount of $375,000 are being requested to enhance the Service-wide Property Accounting System to include a barcode application to track and control property within the Service. This request also addresses a Property Accounting material weakness identified in the 1988 Secretary's annual statement and report on the Federal Managers Financial Integrity Act (FMFIA). This request includes $50,000 for the interface of the Property Accounting System into the Financial Management System.

25.0	Other Services	$ 50,000
31.0	Equipment	325,000
	Total	$ 375,000

9. Communications Program $ 700

A. Secure Data Transmission Equipment $ 200

The Service is requesting funds in the amount of $200,000 for secure data transmission equipment. This equipment is currently being developed by the National Security Agency and is known as the Secure Data Network System (SDNS). Under the SDNS structure, a family of low cost, off-the-shelf information security products will be available for installation in a variety of

communications and information processing systems such as PC's, micro and mini-computers, modems, and host computers.

31.0 Equipment $ 200,000

B. Mainframe Computer Processors $ 500

Funds in the amount of $500,000 are also requested for communications processors for the mainframe computer. The new processors will enable the Service to process more information at a faster rate and will provide automatic system backup.

23.3 Communications, Utilities, and Other Miscellaneous Charges $ 500,000

10. Maintenance-Rowley Training Center $ 352

A. New Heat, Ventilation and Air Conditioning System $ 250

The James J. Rowley Training Center is in need of a new air conditioning system. The present system will be 20 years old in 1991 and it is reaching the end of its useful life. Plans must be made to replace the system in a controlled, planned manner and not after an expensive system failure which could threaten employee health.

32.0 Land and Structures $ 250,000

B. Replace Street Lights $ 22

The existing street lights located on streets surrounding the Beltsville Judgmental Range (Laser Range) are 18 years old and are no longer operational. It is necessary to replace 36 street lights for employee safety.

31.0 Equipment $ 22,000

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C. Hazardous Waste Removal $ 70

Funds in the amount of $70,000 are requested for removal of hazardous wastes which must be disposed of properly. Failure to do so constitutes a safety hazard to personnel.

25.0 Other Services $ 70,000

D. Removal of Asbestos Materials $ 10

On December 21, 1988, a survey was conducted in the James J. Rowley Training Center's Boiler Room to identify the location of asbestos containing materials. An EPA certified laboratory analyzed samples and found that two of the five bulk samples contained asbestos materials. These materials present a serious threat to employee health. An abatement project is needed to properly remove the materials.

25.0 Other Services $ 10,000

11. Program Reductions to Offset Pay Increase ($ 3,201)

In order to fully fund the increased cost of the proposed January 1991 pay increase and the increased costs of the Executive/Senior Executive Service Pay Raise, the Service would be forced to reduce funding for capital improvements in the amount of $3,201,000 during FY 1991.

12. Program Reductions to Offset Increased Cost of AUO ($ 5,754)

Program funding in the amount of $5,754,000 will be reduced from our budget in order to partially offset the increased cost of AUO. This increase results from enactment of Public Law 101-173. The candidate areas for these reductions have yet to be identified. However, the Service will seek to make these reductions so that the impact on its protective programs will be minimized. In addition, other Service program areas, to include its investigative responsibilities, stand to be affected, but the specific impact cannot be determined at this time.

13. Program Reductions to Fund Increased Costs of Maintaining Current Levels for Basic Operational Expenses ($ 1,522)

In order to fully fund the costs required to maintain our current level of operation in FY 1991, the Service will reduce its program funding by $1,522,000. The candidate areas for these reductions have yet to be identified. However, the Service will seek to make these reductions so that the impact on its protective programs will be minimized. In addition, other Service program areas, to include its investigative responsibilities, stand to be affected, but the specific impact cannot be determined at this time.

OTHER CHANGES

TOTAL OTHER CHANGES $15,411

ADJUSTMENTS NECESSARY TO MAINTAIN CURRENT LEVELS $24,482

1. Annualization of January 1990 Pay Act Increases $ 2,011

This amount represents one-quarter of the FY 1990 base amount for the January 1990 3.6% pay raise which was effective for three-quarters of the year in FY 1990.

11.0	Personnel Compensation	$1,800,000
12.0	Benefits	211,000
	Total	$2,011,000

2. Increased Cost for Proposed FY 1991 Pay Raise $ 5,944

This amount reflects the cost of salaries and benefits for three-quarters of the year for a proposed 3.5% pay raise for FY 1991.

11.0	Personnel Compensation	$5,379,000
12.0	Benefits	564,000
	Total	$5,944,000

3. Increased Costs for EX/SES Pay Raise (P.L. 101-194) $ 458

This amount reflects the cost of salaries and benefits for increases pursuant to P.L. 101-194. This pay raise will effect 31 Service employees.

11.0	Personnel Compensation	$ 414,000
12.0	Benefits	44,000
	Total	$ 458,000

4. Increased Costs of Administratively Uncontrollable Overtime (AUO) $ 8,100

During FY 1990, AUO will be compensated at a maximum rate of 25 percent of the GS 10/1 salary for covered employees. With the passage of Public Law 101-173, AUO will be equal to 25 percent of an employees actual rate of pay. This Act will go into effect after September 30, 1990.

11.0	Personnel Compensation	$7,330,000
12.0	Benefits	770,000
	Total	$8,100,000

5. Increased Cost for One Additional Compensable Day $ 843

This amount reflects the increased cost of salaries and benefits for one additional compensable day in FY 1991.

11.0	Personnel Compensation	$ 752,000
12.0	Benefits	91,000
	Total	$ 843,000

6. Increased Cost of Health Insurance $ 1,307

The Office of Personnel Management (OPM) projects a general increase of 15% for agency contributions to employee health benefits.

12.0	Benefits	$1,307,000

7. Increased Cost of Benefits $ 31

This represents an increase of 4.2% applied to the FY 1990 base level for certain benefit costs.

12.0 Benefits $ 31,000

8. Increased cost of Workers Compensation $ 724

This increase represents the actual increased amount over the base for the 1989 Workers' Compensation Fund billing that will be paid in FY 1991.

12.0 Benefits $ 724,000

9. Increased Cost of Travel and Transportation of Persons $ 1,557

- o GSA Per Diem Rates..... $ 582

  GSA currently estimates a 6.5% increase. This factor has been applied to the FY 1990 base of $8,955,000.

- o GSA Motor Vehicle Lease..... $ 207

  GSA currently estimates a 6.5% increase. This factor has been applied to the FY 1990 base.

- o All Other..... $ 768

  For all other categories in this object class, an increase of 4.2% has been applied to the FY 1990 base of $18,286,000.

21.0 Travel and Transportation of Persons $1,577,000

10. Increased Cost of Transportation of Things $ 67

An increase of 4.2% has been applied to the FY 1990 base.

22.0 Transportation of Things $ 67,000

11. Increased Cost of Rent, Communications and Utilities $ 995

- o GSA Space Rental..... $ 1,154

  This increase reflects a 4.4% increased proposed by GSA for FY 1991. This factor has been applied to the FY 1990 base of $26,232,000.

- o Other Rent..... $ 77

  The deflator of 4.4% has been applied to the FY 1990 base of $1,761,000.

- o National Communication System..... $ 8

  This represents the increased costs from FY 1990 to FY 1991.

- o Digital Telecommunications System (DTS)..... $ 71

  This increase represents the change in costs from FY 1990 to FY 1991 for DTS.

- o Federal Telecommunications System (FTS)..... ($ 959)

  This represents the decrease in costs from FY 1990 to FY 1991 for FTS.

- o All Other..... $ 644

  For all other categories in this object class, an increase of 4.2% has been applied to the FY 1990 base.

23.0 Rent, Communications, and Utilities $ 995,000

12. Increased Cost of Printing and Reproduction $ 50

The Government Printing Office (GPO) projects a 7% increase for FY 1991. The increase of $50,000 was derived by applying this factor to the FY 1990 base of $724,000.

24.0 Printing and Reproduction $ 50,000

13. Increased Cost of Other Services $ 1,399

- Other GSA payments (Guard Service, etc.)..... $ 218

  GSA currently estimates a 6.5% agency-wide increase. This factor has been applied to the FY 1990 base of $3,355,000.

- Payroll/Personnel Services..... $ 38

  This increase represents the change in costs from FY 1990 to FY 1991 for the Service's current payroll system.

- All Other..... $ 1,143

  For all other categories in this object class, which include contracts, Maintenance of Facilities, Maintenance of Equipment, Other Miscellaneous Services, Services of Other Government Agencies, Storage of Household Goods and Health Services an increase of 4.2% has been applied to the FY 1990 base of $27,200,000.

25.0 Other Services $1,399,000

Supplies and Materials $ 322

- Supplies and Stationery..... $ 26

  GSA currently estimates a 6.5% increase. This factor has been applied to the FY 1990 base of $399,000.

- Subscriptions..... $ 19

  Major subscription service vendors indicate, in general, foreign subscriptions will increase 10 percent and domestic publications eight percent in FY 1991 over the FY 1990 base of $242,000.

- All Other..... $ 277

For all other categories in this object class, an increase of 4.2% has been applied to the FY 1990 base.

26.0 Supplies $ 322,000

Increased Costs of Equipment $ 674

- GSA Motor Vehicle Purchase..... $ 173

  GSA currently estimates a 5% increase in FY 1991 for additional costs of purchasing vehicles. This factor has been applied to the FY 1990 base of $3,456,000.

- All Other..... $ 501

  For all other categories in this object class, which includes the cost of ADP Equipment, Furniture Replacement, Refurbishing of Protective Vehicles, Special Investigative Equipment, Other Equipment, Replacement of Vessels, Library Books and Purchase of ADP Software, an increase of 4.2% has been applied to the FY 1990 base of $11,937,000.

31.0 Equipment $ 674,000

Non-recurring Costs ($9,071)

Non-recurring costs consist of:

1. Funds in the amount of $1,890,000 are non-recurring FY 1990 costs for enhancements to the Vice President's Residence. ($ 1,890)

   32.0 Land and Structures (1,890,000)

2. Funds in the amount of $315,000 are non-recurring FY 1990 costs for the Service's Technical Security Program. ($ 315)

   31.0 Equipment (315,000)

3. Funds in the amount of $1,332,000 are non-recurring FY 1990 costs for the Service's Technical Security Countermeasures Program.	($ 1,332)
31.0 Equipment (1,332,000)	
4. Funds in the amount of $ 90,000 are non-recurring FY 1990 for the Service's Communications Program.	($ 90)
31.0 Equipment (90,000)	
5. Funds in the amount of $144,000 are non-recurring FY 1990 costs for the Service's Automated Data Processing Program.	($ 144)
31.0 Equipment (144,000)	
6. Funds in the amount of $5,300,000 are non-recurring FY 1990 costs for consolidating the Service's headquarters operations.	($ 5,300)
25.0 Other Services (5,300,000)	

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THURSDAY, MARCH 8, 1990.

SECRETARY OF THE TREASURY

WITNESSES

NICHOLAS F. BRADY, SECRETARY OF THE TREASURY

DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY, DEPARTMENTAL FINANCE AND MANAGEMENT

INTRODUCTORY REMARKS

Mr. HOYER. I call the meeting to order.

Chairman Roybal will be running a little bit late and has asked me to start the hearing, Mr. Secretary, so as not to inconvenience you.

We are very pleased to welcome you once again to our committee. I know everyone on this committee present shares the view that you are certainly one of our finest Cabinet officers and we are very pleased to have the opportunity to work with you on your budget and very, very important objectives.

Secretary BRADY. Thank you, Mr. Hoyer.

Mr. HOYER. Mr. Skeen, did you want to make any comments?

Mr. SKEEN. I will of course extend the same welcome. I am glad you are here and it is worth spending the whole Thursday with you, Mr. Secretary. [Laughter.]

Since you complimented me on my age. 1949, I was about 22 years old.

Mr. HOYER. Mr. Secretary was very concerned to hear that he was going to spend all day here, I am sure. [Laughter.]

Mr. Secretary, in light of that, we will let you get started right away.

OPENING STATEMENT

Secretary BRADY. Thank you, Mr. Chairman.

It is my pleasure to appear before this subcommittee to discuss the operating budget request for the Department of the Treasury for Fiscal Year 1991.

I will keep my opening remarks brief, and if there is no objection, request that my formal statement be included in the record.

Mr. HOYER. Without objection, it will be included.

[The information follows:]

STATEMENT OF THE HONORABLE NICHOLAS F. BRADY

SECRETARY OF THE TREASURY

BEFORE THE

HOUSE COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON TREASURY, POSTAL SERVICE

AND GENERAL GOVERNMENT

MARCH 8, 1990

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

It is my pleasure to appear before this Subcommittee to discuss the operating budget request for the Department of Treasury for Fiscal Year 1991.

Since I appeared before you last year, there have been dramatic changes in the world. East bloc countries are struggling with the difficult tasks of political and economic restructuring. These emerging democracies are looking to the United States for advice and technical support. In the developing world, from the Philippines to Mexico, strides toward economic liberalization are also being taken in connection with the Administration's third world debt strategy. Treasury is in the forefront of America's response to these changes.

On the domestic side, I testified before the Senate and the House Budget Committees and Appropriations Committees last month as one of the Administration's economic spokesmen. We discussed the Federal budget and the Nation's economy.

I emphasized that we can work together to eliminate the budget deficit without raising taxes and take important steps toward encouraging long-term investment in our country's economic future.

The Department of the Treasury carries out a wide variety of functions that are critical to the functioning of our Nation's government. We must provide for appropriate domestic and international fiscal policy formulation, and management oversight of our Departmental operations. The Department has faced head on the problems of international debt and savings and loan regulation and will continue resolution of these issues. Other vital activities for which the Department is responsible include:

- o Administering the Nation's tax system and collecting the revenues due under our tax laws;
- o Managing the government's finances, by financing the debt, paying obligations, and maintaining the fiscal accounts;
- o Collecting customs duties at our Nation's borders; interdicting illegal and dangerous drugs; pursuing money laundering investigations; and providing for the protection of the President and the Vice President; and
- o Assisting the President in directing the Administration's domestic and international economic policies, monetary and financial affairs, and tax policies.

To continue to carry out these essential governmental functions, we are requesting a total FY 1991 budget of $8.7 billion and 163,930 full time equivalent positions.

United States Secret Service
Standard Classification Schedule
(Direct Obligations only)
(In thousands of dollars)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	4,514	4,602	4,697	95
Full-time equivalent (FTE) workyears	4,288	4,436	4,531	95
Object Classification				
Personnel compensation:				
Permanent positions	$152,981	$167,816	$172,572	$4,756
Positions other than permanent	997	500	500	0
Other personnel compensation	36,523	26,950	27,910	960
Special personal services payments	---	---	---	---
Total personnel compensation	$190,501	$195,266	$200,982	$5,716
Personnel benefits	35,043	33,982	40,725	6,743
Travel and transportation of persons	29,029	30,421	33,211	2,790
Transportation of things	1,829	1,599	1,756	157
Rents, communications and utilities:				
Rental payments to GSA	23,804	26,232	28,126	1,894
Rental payments to others	468	1,761	1,806	45
Other rents, communications and utilities	19,346	19,144	19,710	566
Printing and reproduction	640	714	763	49
Other services	27,543	31,710	32,395	685
Supplies and materials	6,721	7,211	8,010	799
Equipment	15,529	15,393	26,442	11,049
Land and structures	6,555	2,991	3,669	678
Insurance	84	45	45	0
Total obligations	$357,094	$366,469	$397,640	$31,171
Unobligated balance available, SOY	(541)	(369)	---	369
Unobligated balance available, EOY	369	---	---	---
Unobligated balance lapsing	---	---	---	---
Total actual obligations, proposed authorized level, and budget estimate	$356,922	$366,100	$397,640	$31,540

Revised
February 12, 1990

U. S. Secret Service, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1989	Authorized FY 1990	Estimate FY 1991
ES-6	1	1	1
ES-5	1	1	1
ES-4	8	8	8
ES-3	16	16	16
ES-2	3	2	2
ES-1	2	3	3
Subtotal	31	31	31
GS/GM 15	111	111	111
GS/GM 14	272	272	272
GS/GM 13	924	924	924
GS-12	716	716	716
GS-11	152	152	152
GS-10	10	10	10
GS-9	168	168	168
GS-8	117	117	117
GS-7	301	301	379
GS-6	201	201	201
GS-5	190	229	246
GS-4	88	86	86
GS-3	36	36	36
GS-2	24	24	24
Subtotal	3,310	3,347	3,442

DETAIL OF PERMANENT POSITIONS

	Appropriation FY 1989	Authorized FY 1990	Estimate FY 1991
Grades established by Salary Act of 1974 Public Law 93-407 (D.C. Code, Section 4-823; 3 U.S.C. 2046).			
Class 10 $65,370 to $72,500	1	1	1
Class 9 $55,136 to $66,346	3	3	3
Class 8 $46,988 to $54,047	7	7	7
Class 7 $40,537 to $46,606	17	17	17
Class 5 $34,878 to $41,857	43	43	43
Class 4 $30,751 to $38,437	125	125	125
Class 1 Private Tech. $24,297 to $34,621	126	126	126
Class 1 Private $23,487 to $33,811	833	884	884
Subtotal	1,155	1,206	1,206
Ungraded	18	18	18
Subtotal	18	18	18
Total Permanent Positions	4,514	4,602	4,697
Unfilled Positions End of Year	-108	-127	-127
Total Permanent Positions End of Year	4,406	4,475	4,570

AVERAGE GRADE AND SALARIES

	Appropriation FY 1989	Authorized FY 1990	Estimate FY 1991
Average ES Salary	$75,100	$76,902	$88,939
Average GS Grade	10.62	10.55	10.44
Average GS Salary	$33,612	$34,263	$34,987
Average Salary of Grades Established by P.L. 93-407	$31,749	$32,273	$33,418
Average Salary of Ungraded Positions	$21,486	$22,066	$23,044

I would like to highlight a number of objectives of our Fiscal Year 1991 budget request:

A key priority is to continue efforts to modernize Federal tax administration. Our request for the Internal Revenue Service (IRS), the largest Treasury bureau, takes into account the continued growth in tax administration workload and the pressing need for modernized systems. In the past several years, we have made great progress in strengthening the tax administration system's effectiveness. The budget request for the IRS is designed to maintain the improvements in the quality of tax processing already initiated. Modernization of the Federal tax administration will ultimately increase revenues by making the system more efficient, improve services to the taxpayer and improve taxpayer compliance and confidence.

Secondly, as modernization proceeds, we must also maintain the ability of the Internal Revenue Service to promote tax compliance and collect revenue. The request for IRS contains the funds necessary to improve ongoing revenue enforcement activities. We propose to accomplish this objective by proposing a series of new compliance enforcement initiatives and management adjustments that serve both short- and long-term revenue objectives, and are intended to produce direct enforcement revenues as well as to promote better voluntary compliance.

Initiatives include expanded audits of tax returns through increased field and correspondence audits, contract training of new revenue agents, the increased collection of unpaid taxes, increased document matching and determining the validity of tax claims for mortgage interest credits certified by local housing authorities.

A third objective is to support the President in his efforts to end the scourge of drugs by enhancing the Department's role in drug law enforcement. In support of the Administration's initiative to combat the importation and use of illegal drugs, Treasury agents will expand their participation in drug enforcement task forces in major cities across the Nation and increase drug interdiction efforts along our borders.

Treasury will lead the investigation of money laundering operations with support from Treasury's enforcement bureaus and other federal, state, and local enforcement agencies. To provide this leadership role, Treasury is establishing the Financial Crimes Enforcement Network (FinCEN), an intelligence center to support money laundering investigations and prosecutions.

Our next major objective is to fulfill our diverse law enforcement and protection responsibilities. The requested funds will allow the U.S. Customs Service to enforce our Nation's import and export laws by processing over 9 million formal entries of merchandise, 125 million carriers, and over 400 million passengers and to collect over $18 billion in revenue.

We also remain committed to the concept of consolidated training in order to take advantage of economies of scale and address the shared needs of our Nation's diverse law enforcement personnel. The request for the Federal Law Enforcement Training Center will allow for facility expansion that fully meets the existing and projected law enforcement training needs of the participating agencies.

We seek funds for the Bureau of Alcohol, Tobacco and Firearms to continue conducting programs to reduce the criminal use of firearms and explosives. In addition,

funding the operations of the Bureau will provide for the collection of an estimated $10.1 billion in excise taxes on alcohol and tobacco.

The proposed budget for the Secret Service takes into account the need to remain abreast of the increasingly complex and burgeoning workload in the credit card and computer fraud jurisdictions, upgrades to information and communications systems, and improved administration of responsibilities that include the protection of the President and the Vice President, and the investigation of currency counterfeiting, check forgery, and other types of fraud.

The Department's fifth objective is to continue to effectively manage the Nation's finances and service America's debt. This includes efforts to improve government-wide cash management, debt collection, financial information systems, customer service to holders of government securities, and the cost effectiveness of the Savings Bonds program.

Our next objective is to supply the resources necessary to provide for the Nation's coinage and currency demands. The requested funding for the U.S. Mint will allow for the production of sufficient coinage to meet the Nation's business needs. The budget will also fund efficiency improvements that will enhance our capabilities to manufacture domestic coinage. The Bureau of Engraving and Printing does not require appropriated funds for currency production, anticipated reimbursements will be sufficient to meet expected demand.

In summary, the $8.7 billion budget request for the Department of the Treasury represents:

- o investment in the IRS to preserve the integrity of the tax system, and to increase tax compliance to make a contribution to tax receipts and deficit reduction;
- o a dedication to law enforcement activities, with priority given to stemming the flow of illegal drugs across our borders; and
- o the responsible preservation of the essential governmental functions of the Department.

Mr. Chairman, that concludes my opening remarks. I will be happy to answer any questions that you or the other Subcommittee members may have.

Secretary BRADY. Since I appeared before you last year there have been dramatic changes in the world. The Eastern bloc countries are struggling with the difficult tasks of political and economic restructuring. These emerging democracies are looking to the United States for advice and technical support and Treasury is in the forefront of America's response to these changes.

On the domestic side, the Department carries out a wide variety of functions that are critical to the functions of our Nation's Government. To continue to carry out the essential Governmental functions, we are requesting a total for Fiscal Year 1991 budget of $8.7 billion and 163,930 full time equivalent positions.

I would like to highlight a number of objectives of our Fiscal Year 1991 budget request.

One, a key priority is to continue efforts to modernize federal tax administration. Modernization of the federal tax administration will increase revenues, make the system more efficient, improve services to the taxpayer and improve taxpayer compliance and confidence.

Secondly, as modernization proceeds, we must also maintain the ability of the IRS to promote tax compliance and collect revenue. The request for IRS contains the funds necessary to improve ongoing revenue enforcement activities.

A third objective is to support the President in his efforts to end the scourge of drugs by enhancing the Department's role in drug law enforcement. Treasury agents will expand their participation in drug enforcement task forces in major cities across the country and increase drug interdiction efforts along our borders.

Treasury will lead the investigation of money laundering operations with support from Treasury's enforcement bureaus and other Federal, state and local enforcement agencies.

To provide this leadership, Treasury is establishing the Financial Crimes Enforcement Network, FinCEN, an intelligence center to support money laundering investigations and prosecutions.

As you are aware, Congress gave the drug czar the responsibility for providing oversight of the anti-drug abuse efforts of all the executive agencies. To assist him in meeting special needs and contingencies that could arise in the war on drugs, Congress provided the drug czar access to a special forfeiture fund.

In Fiscal Year 1991, this fund is now targeted to be used for two purposes: the establishment of the National Drug Intelligence Center, and the integration of intelligence and enforcement ADP and information systems. Treasury supports these projects. They are necessary to an effective drug strategy.

Treasury bureaus are on the front line of the war on drugs. They have consistently done an outstanding job with the resources available to them.

In 1991, we are faced with a need to absorb higher personnel costs. I have taken the opportunity to personally discuss this situation with Director Bennett and he has agreed to work with us and the Congress to use a portion of the forfeiture fund to help alleviate the need for absorption.

I wanted to highlight this in my opening remarks because I appreciate the concern that this subcommittee and your colleagues on

the Senate side have expressed regarding the impact of these absorptions on our drug programs.

I also want to publicly express my appreciation to Director Bennett for agreeing to help resolve the potential problem. This exemplifies the Administration's commitment to cooperation and action to undertake the best possible drug strategy and to curtail the use of illegal drugs.

Another major objective is to fulfill our diverse law enforcement and protection responsibilities. We will enforce our Nation's import and export laws. We are also committed to the concept of consolidated training and we will continue conducting programs to reduce the criminal use of firearms and explosives.

Treasury further expects to improve administration of its responsibilities, which include, the protection of the President and the Vice President and the investigation of currency counterfeiting, check forgery and other types of fraud.

The Department's fifth objective is to continue to effectively manage the Nation's finances and service America's debt.

Our sixth objective is to supply the resources necessary to provide for the Nation's coinage and currency demands.

Finally, we must provide for appropriate domestic and international fiscal policy formulation and management oversight of all departmental operations. The Department will continue to formulate and promote strategies to resolve such major issues as international debt, and savings and loan regulation.

In summary, the $8.7 billion budget request for the Department of the Treasury represents:

Investment in the IRS to preserve the integrity of the tax system, and to increase tax compliance to make a contribution to tax receipts and deficit reduction;

A dedication to law enforcement activities, with priority given to stemming the flow of illegal drugs across our borders;

The responsible preservation of essential Governmental functions of the Treasury Department.

Mr. Chairman, that concludes my opening remarks. I will be happy to answer any questions the subcommittee might have.

LONG-TERM CARE STUDY

Mr. HOYER. Thank you very much, Mr. Secretary.

I am going to initially ask a couple of questions that the Chairman wanted to ask and then I will call on Mr. Skeen, and then I will ask my own questions.

The Budget Reconciliation Act of 1988, Mr. Secretary, required the Treasury Department to prepare an analysis of the potential uses of tax incentives to promote the purchase of private long-term care insurance.

It was also to give cost estimates on various approaches. It was due by no later than November 30, 1988. However, we have still not received this report. Do you have any information on when that will be released, how soon we might expect that?

Secretary BRADY. We are in the final stages of completing that report, Mr. Chairman, and hope to have it to you as soon as we can.

Mr. HOYER. Can you give me a hint? What is "as soon as we can" in light of the fact that it was due November 1988? [Laughter.]

Secretary BRADY. If you do not mind, why don't I find out exactly where it is, and I will get back to you. I understand that the answer was incomplete. It just simply reflects I don't know how close we are, and I would be glad to provide that to you.

Mr. HOYER. Okay. Fine.

[The information is as follows:]

LONG-TERM CARE STUDY

The Treasury was required to perform a study of the financing of long-term care in the Medicare Catastrophic Coverage Act of 1988. The report was to be submitted to the Congress by November 30, 1988. The due date for this report was extended to May 31, 1990 by the Medicare Catastrophic Coverage Repeal Act of 1989. A draft of the study is currently under review. It is expected that this study will be submitted to the Congress by the May 31 due date.

CUSTOMS FTE CEILING

Mr. HOYER. The Fiscal Year 1991 budget has recommended a reduction in personnel for the Customs Service, the principal agency, as you have discussed, that prevents drugs from entering the country.

Congress, of course, has never agreed to these reductions, and in the past has provided additional Customs personnel and the money to pay for them.

What is the reason for proposing reductions in Customs every year when the Government is waging a war on drugs and it would appear that this reduction is not consistent with this war and our need for personnel resources to fight it?

Secretary BRADY. Well, Mr. Chairman, I think you are referring to the absorption problem that we have, particularly in the Customs Department. Our overall drug budget for customs is slightly misleading because in the 1990 budget we do have an extraordinary non-recurring item which includes the purchase of airplanes.

But if you look at drug funding in the S&E account from 1989 through 1991, they go from $361 million to $395 million in 1990 to $436 million in 1991. So we are increasing those expenditures.

However, to be specific about the absorption problem, we are committed to rearrange the personnel in the Department so that we are not letting up on the drug enforcement area.

And with respect to Chairman Bennett's offer this morning to discuss how he might be able to use money from the drug forfeiture fund to alleviate that problem, we will be working with him on that and there will be relief in that area.

Mr. HOYER. On a follow-up though, if I might, Mr. Secretary, the actual FTEs as I understand it have decreased though, is that correct?

Secretary BRADY. I am going to ask Mr. Nummy, if you don't mind, to answer that.

Mr. HOYER. The staff tells us that there has been 314, which may be somewhat minimal.

Mr. NUMMY. It is true that if you look at the entire Customs operations, overall FTE usage does decrease by 314 FTE. What the

budget envisions is a sort of refocusing of personnel so that we will see an increase in the drug related efforts within Customs.

I think Commissioner Hallett was here earlier talking about the fact that while she is going to have to rearrange some people within Customs, the amount of people that are targeted towards drug related enforcement and investigations will actually go up.

And I think what the budget envisions is that within Customs we expect to go up from 5090 FTE in Fiscal Year 1990 to 5123 FTE in Fiscal Year 1991 for drug-related efforts.

ABSORPTIONS

Mr. HOYER. Mr. Secretary, the last related question on that, because you dealt with it in terms of absorption, could you give me your thoughts on the policy which we have followed now for some years of absorption as it relates to trying to give Federal employees raises to remain competitive in the work force?

Secretary BRADY. I am going to ask Mr. Nummy to answer that question again, if I might.

Mr. NUMMY. I think it is important to note that absorption, as you know, is not a new idea. It has been going on for years. It has been used both by administrations and Congress.

One of the problems we are facing within the Department of Treasury is that when you have a very personnel-intensive agency and you have a number of absorptions over a number of years, they start to compound themselves.

And the ability to take those savings in nonpersonnel areas wither away over time. I think it is our feeling in Treasury that with certain bureaus, Customs and ATF and IRS, certainly for the last couple of years, those absorptions are becoming real. And it is more and more difficult for the Department to deal with that every year.

Mr. HOYER. Mr. Secretary, as one of the President's closest friends and also closest advisors, and one of the principal financial officers of our Government, I would hope you would really weigh this absorption policy that continues year after year as a phony policy. It is very detrimental to the operations of the Federal Government.

I said phony; it is a dishonest policy and it is pitting programs against personnel. And what is happening, as you so well know, is we are pretending that we are keeping personnel, not even with inflation even, but giving them some sort of raises; we are, but at the expense of vital programs because you simply, as Mr. Nummy has just pointed out, you can't do it much longer and expect to have any of the fudge factors that can be absorbed. It is going to cut into your program; it is cutting into your program.

I would hope you would weigh in on that because we don't change that policy, and address paying for what we want to do. Of course, I think that is across the board, but certainly I think that is one area where it is reflected that we are not being responsible.

Thank you, Mr. Chairman. I asked a couple of your questions.

Mr. ROYBAL. Very good.

Mr. Skeen.

RECRUITMENTS

Mr. SKEEN. Thank you, Mr. Chairman. Mr. Secretary, I want to begin by commending you on the working relationship that you have established with Mr. Bennett. I know it has been a very difficult transition. I think that both of you should be commended in the way that you have handled the establishment of the relationship.

At the same time, Treasury is going to have to maintain its high level of effectiveness in the drug war situation and I think that this bodes well for the entire program.

I, too, am concerned about the personnel situation, and particularly the ability for Treasury to hire and maintain highly qualified people. What I specifically wanted to ask you about is the salary adjustment for your employees in high cost of living areas.

Is that working as far as your recruitment is concerned and so forth?

Secretary BRADY. Well, Congressman, as you pointed out there is increasing concern on the recruitment problem. We have had the National Advisory Commission on Law Enforcement recommendations, one of which is to make differences for geographical areas and we believe those recommendations will address that problem.

Mr. SKEEN. You have it initiated and it is working?

Secretary BRADY. Yes.

SAVINGS AND LOAN

Mr. SKEEN. That's what I was concerned about.

Next, I would like to ask you a question about the jurisdiction over the handling of insolvent savings and loans and the administration of the Resolution Trust Company.

I am vitally concerned about it because it is not working in our part of the country. We are getting more and more criticism because there is less and less response. They cannot make a decision or they will not make a decision in a timely fashion. And it is not just sporadic. It is constant.

What is happening in that area as far as the handling of the savings and loan situation? Where are we and how can we get a better response effort?

Secretary BRADY. Well, I think we have to look at this problem in several different ways. First of all, legislation was passed at the end of last summer so the effort is now some seven or eight months old.

In the case of the RTC, the Resolution Trust Corporation, which is the principal organization that is instructed to deal with this problem, we have created an organization, now the second largest financial institution in the United States, in less than seven months.

Mr. SKEEN. RTC?

Secretary BRADY. RTC. And you have to weigh that against the fact that the largest is Citicorp and it took them 80 years to get there.

So we are only six or seven months into the problem. I don't use that as an excuse. I only say that this organization has been built up over a very short period of time.

I also want to make very clear that in the structure of dealing with the S&L problem, you have to look at the different entities involved. One is the RTC, which is an organization in which there really aren't any people. They are all secured by the FDIC.

The Oversight Board, of which I am Chairman and of which Chairman Greenspan and Secretary Kemp are also statutory board members, has three jobs, one of which is to provide the money to the RTC. The second is to establish policy in the broadest sense. And third is the audit function, which we certainly will do, but the first periodic audit will be at the end of the year. Although we are conducting audit operations, it could go wrong.

So the Oversight Board provides the money, creates the general policy, and does the audit function. All of the resolutions, Congressman Skeen, are done by the FDIC and with Chairman Seidman and his colleagues are responsible for that effort.

So, I think that what people have to understand is that this is a complex process. The Treasury Department does have a role in it and we intend to work hard on the job that the Congress gave us.

But ours is a policy level job and we will keep working on that particular score. With regard to this problem, when a problem gets as knotty and expensive as the S&L problem is, news coming out of that can't be good news because it is something that is very unpleasant. And the job of making sure that we get this problem under control and do what Congress told us to do, which was to make sure the depositors get paid in full, is underway.

The argument goes on. You are not going fast enough. So, if you went faster you would be dumping more real estate on local markets, such as your market in New Mexico and people down there would say you are going too fast.

If you slow down, then the carrying cost of the assets that you've got inside the RTC go up and people say you are creating an expense that way.

So this is an operation that is going to take some time to shake down. I understand it is causing everybody a problem. But what we are doing in the Treasury is working at it. We have not spent a lot of time trying to decide whether the problem is bigger or smaller because it wouldn't make any difference to the administration of the problem and what we do on a daily basis.

But we are working hard on it, and we are trying to concentrate on getting things done. And I think as you see the problem play out, it won't go away. It will be nettlesome to all of us. But we will make progress.

Mr. SKEEN. Well, I appreciate the response. And this is the same kind of answer that we give the people who are making the complaints. It is always good to touch base with you.

S&L PROPERTY

We have a problem, too, with depositors, the claim that they are not being treated fairly. The decisions are not being made. Nobody seems to want to make a decision from any level of the bureaucracy that has been set up.

And I can understand because it is personnel-intensive and RTC doesn't have a large personnel base. That is not their area, as I understand it from what you just told me.

Secretary BRADY. Well, the RTC is manned by the FDIC, so everybody that is inside the RTC comes from the FDIC.

Mr. SKEEN. Well, somebody somewhere—for instance, you mentioned the property. There are huge amounts of property being handled. They cannot even make a decision on the $500 limitation on repairs. If it is up to $500, you can do repairs on the property and what they are doing is contracting it out.

But if it is over $500 in repairs, they have to obtain a special decision from somebody about whether they can do the upkeep work on this property that they are holding, and yet they won't break the properties down in sizes or groups that can be handled by people who are willing to present a market for it.

So somewhere along the line there is some blockage.

And I understand because you are just formulating this thing, you are seven months in this thing, it too—what did you say, eighty years?

Secretary BRADY. For however long the Citicorp has been in existence.

Mr. SKEEN. It took us that long to get it in a mess. It is going to take a lot longer to unravel it.

So I appreciate the response on that. We are working on it. But what we would like to do is have access to people, and we are. We are approaching HUD and some other people with possible solutions for handling specific pieces of property.

That access has been pretty good, but there is just an across-the-board dissatisfaction right now with the way the thing is being handled and I wanted to mention that to you.

FINCEN

Let's go to the Financial Crimes Enforcement Network, FinCEN. I am a little concerned that we have gotten this agency stuck under Customs and it should be under one of the departmental offices in the Treasury.

Is this creating any problem?

Secretary BRADY. Well, not really. I can understand your concern because it is certainly a lot wider program than just the Customs Department.

But frankly that is where it started, from the budgeting point of view. That is where its original authorization came from. But as a day-to-day matter, it has Treasury-wide and Government-wide purview and I don't see it as a system that will hold back the speed with which we handle problems.

Mr. SKEEN. It started out as that kind of an organization.

Secretary BRADY. Well, it started out in Customs and that is where the funding came from, but it functions differently. It functions Government-wide.

Mr. SKEEN. How does the Department's National Drug Intelligence Center fit in with the mission that you have at FinCEN?

Secretary BRADY. Well, they have slightly different purviews. The National Drug Intelligence Center is a——

Mr. SKEEN. That's Department of Justice.

Secretary BRADY. And we think it is a good effort but it will be solely drug-related. FinCEN is a much wider operation, going across all different kinds of financial aims and has a much broader purview.

The Drug Intelligence Center is important because it will be focused on drugs itself.

Mr. SKEEN. Is there a lot of cooperation that goes on there?

Secretary BRADY. There will be.

Mr. SKEEN. There will be.

Secretary BRADY. The Drug Intelligence Center is just in the process of being formed.

VALUE-ADDED TAX

Mr. SKEEN. Would you comment on how you feel about a value-added tax?

Secretary BRADY. Well, I know that the value-added tax has been a successful exercise for other countries. We have studied it from time to time but we do not think it is applicable at this time.

Mr. SKEEN. I thank you very much, Mr. Secretary, and thank you, Mr. Chairman.

CUSTOMS USER FEES

Mr. ROYBAL. Thank you, Mr. Skeen.

Mr. Secretary, first of all I would like to join my colleagues in welcoming you to this committee room.

Secretary BRADY. Thank you.

Mr. ROYBAL. As you know, it is one of the oldest on the Hill. It has been used for many years. Probably a lot of questions have been asked here that are in many instances considered unnecessary.

While I may have some of those questions to ask this morning, I still believe that they are important, particularly from the viewpoint that some legislation may need some amending.

One of those questions, I think, regards the Customs user fee. That was enacted by Congress Public Law 99-509. But it doesn't seem to be working. Maybe you have some ideas as to why it is not working and why it is not being used to expand the operations of Customs.

Secretary BRADY. Well, sir, we are in the process of reformulating the user fees and will be back to you later in the year, we hope, with a better way of handling that.

Mr. ROYBAL. It seems to me that before this was done that they should have been in close consultation with Customs. My understanding at the time was that they were.

But somewhere down the line something has happened and it is not working correctly. So, I am glad to know that you are looking at this and that there will be a recommendation made from the Administration.

And we hope, that at that time, Members of the Congress can work along with you so that legislation is proposed and passed that starts making some sense. Because up to this point I don't see that this makes very much sense.

IRS FUNDING

Another thing, Mr. Secretary, is the Internal Revenue Service. You have requested additional funds and personnel. I would like to know whether or not you think that is sufficient to, first, properly enforce the tax laws of 1991 and then, second, whether or not it is sufficient to make it possible for the Internal Revenue Service to do something about the backlog, the monies that are owed the Government. They tell me that it is possible that it is as high as $150 billion if you include taxes on both legal and illegal income.

Is the request that you made sufficient to be able to, number one, enforce the tax laws of 1991 and at the same time do something about collecting part of that $150 billion?

Secretary BRADY. Well, we could always use more money like any agency. But within the budgeting constraints that we now have to operate under, the 11 percent increase that is being put into the IRS is about as much as they can absorb on a year-to-year basis.

One of the things that we have to do, and be coming back to the committee on, is over time make sure that our computer base and our computer facilities are up to speed. And we are working on this on a yearly basis. Some amount of the increase this year goes to that effect, for that purpose.

But we have put forth a management reform initiative which is attempting to do just what you have referred to: try to make sure that we collect the delinquent amounts that are outstanding in a more common sense way. By that, I mean, not take them as they come in but try and pick the bigger items and work on those problems earlier.

We think that will produce a lot of money for the Government over time and we are just starting on that problem right now. Rather than take them seriatim as they appear on the IRS door step, decide which are the big ones and which will provide the most yield for the Treasury and the Federal Government and try to get those amounts in early on and put our manpower on those particular items.

IRS ENFORCEMENT

Mr. ROYBAL. This committee in past years has actually increased the dollar amount to Internal Revenue Service over and above the budgetary request, which leads me then to the next question.

If we could provide additional funds and personnel for the Internal Revenue Service in Fiscal Year 1991, do you think that that money could be earmarked so that it could make it possible for IRS to collect additional taxes?

Secretary BRADY. Well, the increase that you have given us is, as I say, about as much as we can absorb in a single year. We have the training problem, people have to be trained. And we are pretty much at capacity right now.

But the increase, the 11 percent increase that is provided is going to be used in an efficient way.

Mr. ROYBAL. Supposing we were able to provide more money for that particular purpose, do you think the IRS could devote more of

its time and its personnel to that specific problem, the collection of the $150 billion?

Do you think they could do it? I asked IRS the same question. And I want to know what your opinion would be.

Secretary BRADY. Well, why don't I ask David Nummy.

Mr. NUMMY. I think I will reiterate what the IRS Commissioner said, which is Treasury and IRS share the same concern.

One of the problems that the IRS has suffered is a seesaw increase and decrease in staff. We are very committed to maintaining a very constant growth and we want to make sure that we don't get so many people influxed in one year that we don't have the ability to train them, that they are not going to be productive in their first and second year.

So we did take a long time in formulating our request. We reviewed the 11 percent increase which is one of the largest increases in the entire Department. And we are very supportive of that; we think that is necessary.

We did try to make a determination as to at what point in time increased staff results in diminishing returns. And we feel like we have hit the optimal increase.

Now that is somewhat of an art rather than a skill and it is possible we could absorb more and put them to good use. But we feel we have hit the right balance.

Mr. ROYBAL. Does the IRS agree with that?

Mr. NUMMY. I believe they do.

Mr. ROYBAL. Did they say we don't need any more money, we can't absorb it, we can't train any more people?

Mr. NUMMY. In terms of——

Mr. ROYBAL. Therefore, people who have not paid their fair share of taxes are going to continue to owe the Government $150 billion?

Secretary BRADY. Mr. Chairman, I think that is in terms of one year. Over time, we certainly want to work with you and make sure we keep this program going.

Mr. ROYBAL. But if we start one year, start appropriating that, we will have that same level of expenditure for the following few years so that these taxes could be collected.

Not all is going to be collected in one year, of course not, and that we know. But we have to start somewhere. And we have been hearing that figure, $140 to $150 billion, for the last five or six years.

Somewhere down the line we are going to have to reduce it. The question is how? Can it be done by putting more money into the IRS?

The answer seems to be no, it can't.

Secretary BRADY. Well, I think the answer is that it can be done by putting more into the IRS but you have to do that at a measured rate because you have to train the people and approach the problem on a year by year basis and go at it that way.

I would hope that the level of funding that we have been granted will continue to increase on a year by year basis and I would ask for your support in that connection.

Mr. ROYBAL. Again, you have to start somewhere to train these people. But do you think that the additional amount that has been made available is enough to start this training process so that over

a period of the next four to five years you will be able to collect that money?

Secretary BRADY. I do.

Mr. ROYBAL. Because if that is the situation, then perhaps we can agree with you.

But we don't, in this committee, like to see that tremendous gap year after year after year. How long is it going to take for it to be corrected?

It is all right the first year and the second year. But when you get to the fifth and sixth year and you see the same thing happening and nothing being done about it, then one wonders what is happening.

Secretary BRADY. We share that view, Mr. Chairman. It could also be the fact that we are doing a better job of assessing people for the taxes that they owe. And the amount is increasing because we are more efficient in asserting the claims that rightfully belong to the Government.

So it may not be just that we are not collecting it faster; it also could be that the amount of the claims are going up because we are getting a little better at catching the people that owe the Government money.

Mr. ROYBAL. Sure. But you also have more people working, more money coming in, according to reports that I hear. And so that is part of the process that is going on.

But these are monies that are collected. The problem is taxes people didn't pay in the past that they owe the Government that we are not collecting, and this is why I am concerned about it.

FOREIGN INVESTMENT

Now, Mr. Secretary, let's go into another matter which we discussed yesterday. It was a discussion because of the concern we have with regard to this problem.

It appears from the media reports that foreign investments and ownership are increasing rapidly: that is, ownership of businesses; industrial capacity, farmland, as well as ownership of a large part of our debt, which was a subject of discussion yesterday.

I am asking for your opinion, yours, Mr. Nummy's, and the others. What are the advantages and disadvantages of foreign investment in the United States?

Secretary BRADY. Well, like every other subject of this kind, it has got pluses and minuses. Basically the answer is the pluses outweigh the minuses, going back to the very beginning of this country. We built this country on the confidence that foreign investors had in the United States. It is a vital part, we think, of creating jobs and keeping interest rates at a level where people can go out and put new projects into place, that come out with U.S. products that are low-priced and good ones. It also provides jobs.

What we do is keep our eye on the ownership that foreigners do have, not only of Treasury securities but assets in the United States as a total. All I can say with regard to the foreign ownership of Treasury securities is it is something over 18 percent which is within the range that it has been during the last 15 years. I believe

it was about 20 percent in 1978 and it was higher, 19 to 20 percent, in 1979.

So it isn't at an alarming level in our opinion. Of course when people see foreigners owning U.S. securities or U.S. assets, it does alarm them. On the other hand, it is a way to keep interest rates down and provide jobs. So from that point of view the pluses do outweigh the minuses.

FEDERAL DEFICIT

Mr. ROYBAL. All right. Now let's go into the Administration's estimate of the budget deficit for the next few years, which is related to foreign ownership of U.S. assets.

Now what is the long range plan of the Administration to deal with the deficit? And then maybe you could tell us what impact it will have on our economy.

Now I realize, Mr. Secretary, that these are questions in which your opinion and that of the Administration will have to be articulated.

By doing so, we in this committee also learn. We also want to know what the official stand is and what the long range plan of the Administration would be to deal with the deficit.

Secretary BRADY. Mr. Chairman, of course this is one of the burning questions before the United States and before the whole world.

As I go around to various foreign capitals—and I have just come back in the last two weeks from a trip around Europe and seen all of the major finance ministries and some of the central banks—this is the question that we discussed with them and we will be discussing with them at the next G7 meeting later this spring.

Our goal is to keep driving the deficit down. There are various ways the deficit is looked at. My own opinion is you ought to look at it both with and without the inclusion of the Social Security trust fund.

If you include the Social Security trust fund, the trend is very nicely down and also getting to a level that puts us in a very good standing with our foreign competitors as they face the same problem; our deficit is being forced down and presently it is a lower percentage of GNP than it is in many of the G7 countries that we deal with.

If you exclude the Social Security trust fund, then the problem looks less rosy but still encouraging. We expect the deficit adjusted for the trust funds to decline over the next several years from its recent high in FY 1989. I have no objection to looking at the deficit both ways. Either way, it will be coming down from its recent high. It isn't as low as we should get it.

If you ask my opinion as to whether we want to extend Gramm-Rudmann to make sure that on both bases it is zero at some point as quickly as we can get there, I think we should.

Mr. ROYBAL. All right. Now I don't want to go into a long discussion on Social Security; we already did that yesterday. We don't want to repeat it today.

Secretary BRADY. That's fine with me. [Laughter]

Mr. ROYBAL. But do you think that Social Security should be included or should it be excluded?

Secretary BRADY. I separate the problem in my mind into two compartments. One is, what fundamentally is going on inside the Social Security trust fund and is it sound and are we doing the right thing with regard to the trust fund.

And two, how should we look at our budget deficit? Again I don't want to take up a lot of the subcommittee's time, but I think we really ought to look at it both ways. I think as we look at the budget deficit to see how we are doing there, we ought to also look at the Social Security trust funds because that is the way we started looking at it in the 1960's when the trust fund was in deficit. I don't think we ought to just automatically change our mind because it is now going into surplus. Also, to evaluate the economic impact of the budget we should look at all the financial transactions, including the trust funds.

But at the same time, I think it is perfectly fair to say you should look at the deficit without it.

Mr. ROYBAL. Originally, Social Security was not, it was excluded. Social Security was independent at one time. And then came the Vietnam War, and all of a sudden we used it to cover up our deficit.

We continue to do that. I am of the opinion that it should be excluded. It should be the way it was at the very beginning. I think Social Security is in a better financial situation than the Treasury of the United States.

Social Security does not borrow from the Treasury. It is the other way around. Having said that, we must go into another subject because I realize that Social Security can be debated from now 'til kingdom come and nothing will happen until it happens.

And the way things are now, it is going to happen in the year 2047 when Social Security, if we continue what we are doing now, will not have any funds. So we have to make a change pretty soon.

Let me recognize Mr. Wolf at this point. Do you have any questions?

AMERICAN EDUCATION

Mr. WOLF. I really don't have very many questions. I just welcome the Secretary and want to ask one or two questions, and a few concerns. I don't want to go into it in great detail. I don't think it would benefit any of us today.

I just want to express some concerns and maybe we can talk about them later in greater detail. I think the economy is very strong. I think clearly we are the number one country in the world economically and militarily. Japanese are strong economically but not very strong militarily.

And the Soviets are strong militarily but they are a basket case economically. We are the only country that is strong economically and militarily. We have had eight consecutive years of economic growth, so there are so many good things going on that we could spend the afternoon talking about.

On the other hand, there are some storm warnings. This was a piece that I passed out up at Princeton when the Republican Members of the House had a retreat. You might look at it later.

It just raises some of my concerns. Education. American students go to school 180 days a year. The Japanese go to school 240 days a year. You know, 240 is not a magic number, but their school day is even longer than ours.

And if two people are absolutely equal and one is going to school 180 days a year and the other is going to school 240 days, and the one going 240 has longer school days, eventually you are going to see a difference.

Patents. There are a almost as many foreign patents now being granted at the Patent Office as domestic patents. We are graduating ten lawyers for every engineer, and Japan is graduating ten engineers for every lawyer.

We have 800,000 lawyers; Japan has about 11,000 to 12,000.

Mr. SKEEN. Let's export lawyers.

Mr. WOLF. Joe wants to export lawyers. Is that what you said, Joe?

Mr. SKEEN. Absolutely. [Laughter.]

Mr. WOLF. And I am not criticizing the legal profession. I am a lawyer.

Mr. SKEEN. We are surrounded by them.

Mr. WOLF. We are surrounded by them.

But your Director of Public Debt passed out this sheet yesterday pointing out the public debt held by foreigners. Foreign investors now hold 18 percent of U.S. debt, which I think could be potentially dangerous.

In 1980, two of the three largest banks—as you know better than anybody—in the world were American banks. Now in the top 20 there are no American banks. The largest American bank is Citicorp which is now 24th ranked by assets.

The savings rate is down. I commend you on what you are doing in the Administration on capital gains. I think you are exactly right. I think you are exactly right on the family savings plan and some of those other initiatives.

But I would just ask that you make sure that we are really focusing on this thing on a full-time basis because although today things are good, there are some storm warning out there. I get a little frustrated, personally, as a good Republican and somebody, as you know, who has been very supportive of this Administration, when I read Mr. Boskin quoted in the paper saying that, "We don't want to pick winners and losers."

That is really not a trade policy, to say "we don't want to pick winners or losers." I think the federal government has a role in the high definition television era. Perhaps we should have an ARPA, since there are some basic high tech areas in the computer and electronics areas that we really ought to be involved in.

I have talked to a number of businessmen the last couple of weeks and they are basically reluctant to get involved in some of these areas because they don't see the support from the federal Government.

So I don't know that it is a fair statement to say "we don't want to pick winners or losers" because we don't have to pick them. We

don't want to favor General Motors or Ford or any individual company.

But to be involved in high definition television and in some of those other areas I think would be helpful.

The last point on this—and this is a statement, it is really not a question, I know—is in the military preparedness area. I think the President is exactly right with regard to the fact that we have to maintain a strong defense.

The last three times we have used our national defense has not been in the east-west arena. It was in Grenada. It was in Libya. And it was in Panama. So I think the President and Dick Cheney are absolutely right with regard to defense. We can have some defense savings but we have to do it on a gradual basis.

But a report by the joint logistics commanders found foreign dependencies in 13 weapons systems: the systems included the F–16, the F–14 airplane, the M–1 tank, the Sparrow missile, and the AV–8B Harrier aircraft. And there was also the 1989 Johns Hopkins study which I mentioned to you last year.

I am a little bit worried that we could, if we don't deal with this issue almost in the way that we dealt with the Sputnik situation, begin to see problem develop.

I don't believe the answer is to be critical of the Japanese. Although, I think there are some things we clearly can be critical of. But I think they are going to be a good, long-term ally for the United States.

But on the other hand, we do know that some of their markets are still closed. So we need to be very aggressive and I am sure the President will be.

We also should understand that they do come into our arena, into our Capitol, and retain many, many prominent people who have worked for the Federal Government.

And I think we should face the fact that we potentially have a problem. We should send a clarion call out with regard to education, with regard to savings, with regard to investment, with regard to research and development, with regard to languages instruction.

When Japanese businessmen come to America, they negotiate in English. When we go to Japan, our businessmen negotiate in English. We need more sciences and math and physics and chemistry and biology and things like that.

I think that you should concentrate on these ares.

But there are some storm warnings. And the purpose of storm warnings are not to say don't go out to sea. They are to be very cautious and very careful and to be prepared.

So if you could take a look at that paper that I passed out at Princeton. Also, I would like to give you a copy of a CRS report that I had done.

We asked the Library of Congress five questions about Japan/U.S. economic issues, investments, savings, technology and attitudes. If you would just take a look. Then you and I could chat about it some other time.

SAVINGS BONDS

The second question I would like to ask you—well, let me just make one other statement. Yesterday the Director of the Public Debt came up and said they were going to do away with the $50 payroll savings bonds.

Now that may make sense, but there are a lot of people who are making only so much money and the $50 savings bond is really where they are. I mentioned to him that many people would like to have the opportunity to buy $50 bonds.

At the very time that we are encouraging savings, to take away the $50 savings bond might not be a very good idea.

Do you have any feelings with regard to that?

Secretary BRADY. Well, I think I agree with you up to a point, Congressman Wolf.

I think—and I will ask David Nummy to correct me if I am wrong. I think that we are not eliminating the $50 and $75 savings bond for sales over the counter.

Mr. WOLF. Right.

Mr. NUMMY. That's correct.

Secretary BRADY. But we are eliminating it for the payroll deduction program.

Mr. WOLF. Right.

Secretary BRADY. The reason for that is that over time we found out that what happens is that, although some people, not too many, take advantage of the lower denomination savings bonds, they sell them right away. And so there really isn't any net saving benefit to the country.

From that point of view, we felt that if we could keep them open for over-the-counter-sales, it certainly would keep them in the reach of those people who are small savers.

But that in terms of this other program which is aimed at the payroll deduction plans, that it just hasn't been very effective, and administratively it would be better to eliminate it. It doesn't mean eliminating it as a whole.

Mr. WOLF. Can I ask you to look at that again, because, one, 70 percent of those people who take the savings, take them as payroll deductions. Very few come into their local bank and buy them.

Second, we are trying to develop the culture of savings. Savings bonds attract many first-time people in the job market, and sometimes the reason they sell them is that they have a very difficult time economically.

I made a comment yesterday that my dad was a policeman in Philadelphia. We would get savings bonds. I used to get the $18.75 savings bond to get the $25 bond.

Even if it is less profitable maybe you ought to look at it one more year and promote it heavily. But let's take a young woman who gets her first job working in New York City. She is making $22,000 a year, and wants to begin saving. A $50 bond certainly looks like something she could deal with. Her rent is probably $450 to $500 a month.

But when you start talking about a $100 payroll deduction, it just sort of moves it out of reach. I really would urge you to look at it again for another year.

Now the gentleman who testified said if you got rid of this you would save $3.1 million. Well, $3.1 million, when we are talking about last year we borrowed $393 billion, and with 18 percent of our debt owned by foreigners, to encourage young people coming into business and working class people maybe for their first or second job to save, it is really worth it.

I would ask you to look at it and see if you could keep that $50 savings bond for another year; promote it heavily; then if you come back next year and it hasn't worked, then I think I would have no arguments.

But I would ask that you really look at that.

Secretary BRADY. Why don't I take a look at that and get back to you.

CHILD CARE

Mr. WOLF. My last question—I know you are all doing a great job—is with regard to the child care question. I wonder if you could bring me up to date on what Treasury is doing with regard to child care. Has there been an arrangement made with the White House?

Could you for the record tell us what you are doing down there?

Secretary BRADY. Well, our child care plans are well underway. We hope to open a child care center in January of this next year. It has taken a certain amount of planning to see whether we can interest other agencies, the White House and others, who are very close by, so more than the Treasury can make use of this all-important facility.

And we now have a survey out to see where we can get space within four or five blocks of the Treasury. I think we will be well underway in January of this next year.

Mr. WOLF. I want to commend you for that. You might want to have your personnel people look at the possibility of some other programs like job-sharing where two individuals can share the same job.

Also, flexi-time. Do you have flexi-time at Treasury?

Mr. NUMMY. We do have flexi-time.

Secretary BRADY. We do.

Mr. WOLF. And flexi-place? You may have some people who don't necessarily have to come in every day, people perhaps who are answering IRS inquiries could work out of their home.

But the more creative the agency is—flexi-time, flexi-place, job-sharing—the better.

Again, Mr. Secretary, I look forward to talking to you later on about some of these issues. I appreciate you coming up, and thank you for your time.

I yield back the balance of my time.

Mr. ROYBAL. Thank you.

BALANCE OF TRADE

Mr. Secretary, I would like to discuss with you the present balance of trade and what the forecast is for the next few years.

Secretary BRADY. This last year we made a slight improvement in the balance of trade. I believe in ball park figures it has come

down from $150 billion two years ago to roughly $100 billion this year.

It is a very hard figure to project into the future, Mr. Chairman, because it not only depends on currency variations but also the speed at which our domestic corporations are gearing up in order to take advantage of foreign markets.

But my feeling has always been I have been one of those who is optimistic on the problem of reducing our trade deficit. I point to the fact that our exports are really increasing at a much greater rate than our imports.

That isn't the whole story. The import base is a lot larger than the export base, so our progress isn't as fast as I would like it to be.

But I have great confidence that American industry, when it gets a fair shot at foreign markets, can do as well or better than anybody else and I think that process is underway.

I think why some have been confounded by the fact that we continue to decrease our trade deficit is they don't take into account the fact that most American businessmen do a darn good job when they get rolling and where rules and regulations allow them to come into markets and where they see an opportunity for profit and good work.

So I am optimistic. I can't tell you that it is going to evaporate overnight. We have the problem of import of foreign oil which, as you know, is a big item. I think it is by far the largest factor in the import side of our figures.

So we will always have that to contend with that. But in the meantime, I think our U.S. industry is doing a good job.

RELATIONS WITH JAPAN

Mr. ROYBAL. What about our balance of trade with Japan? Is there any hope that that can be improved?

Secretary BRADY. Well, I think there is hope that it can be improved. We are working very hard with the Japanese. In fact, I was out with the President last weekend at a meeting with the Prime Minister of Japan and I must say that the President was extraordinarily direct with the Prime Minister about his—the President's—feelings about our position with regard to entry and continued fair treatment or ensuring fair treatment in the Japanese market.

Those people who have been to a number of these trade meetings before said they had never heard an American President be as direct and detailed in his prescription of what should take place in order to improve our lot.

So, I think the meetings we had this week and last weekend will make a difference. Prime Minister Kaifu has gone home and he knows exactly what the President has in mind.

Having said that, the Japanese surplus with the United States, which I think is some $50 billion, is going to be a problem that we are going to have to continue to work on. The Japanese mentioned the fact that they had a deficit with the United States in surplus for the month of January.

I think one robin doesn't make a summer, but they are very quick to point that out.

But it may indicate that we are getting close enough so that if you get a big push one way or the other, it will make a difference.

I think it is a problem we have to continue to work on. I can certainly not assure you that it is solved. But what I can assure you is that we are handling it and the Japanese are well aware of the President's feelings in particular detail.

INTEREST RATES

Mr. ROYBAL. All right. Now on the overall, there has been a reduction of about $50 billion. How has that affected our economy?

Secretary BRADY. Well, I think what that figure means is that our export sales are going up at a much faster rate than our imports. Of course, that means there are more jobs in the United States, factories are working at higher levels of capacity providing, more jobs for our people, and a better profit performance for our U.S. corporations.

So I think it is a positive figure.

Mr. ROYBAL. Yes, and more jobs, more income would result in more homes being built, more homes being purchased. It could also have an effect on the interest rate.

I have not seen a real effect on the interest rate. I keep on hearing that the interest rates are low or lower than they used to be some years ago.

But, you know, the interest rates now, if anyone wants to get a loan of some kind, you still have to pay around 11 to 11.5 percent. And that to me is a high interest rate, it is starting to get to the high side anyway.

Secretary BRADY. I think both points of view are correct. Interest rates have come down against a year ago. They have come down almost 1 percent, until a few months ago, and now they are sort of going back up again a little bit. They haven't removed all the progress we made in this past year but they have gone back up a little bit. Naturally that is a concern of the Administration as I know it is to you.

I think that if we continue to make progress on the deficit and our balance of payments continues to improve, that we should see interest rates continue to go down.

Mr. ROYBAL. Mr. Secretary, I live on Capitol Hill. I live on Constitution Avenue. I used to see houses for sale. In two weeks, sold.

There are two houses right in my own block now and I know the owners of both of them. They have been for sale now for over 90 days. Just last week they were renewed for another 90 days.

They reduced the price each by $40,000 and then agreed to pay the points for the loan that the buyer would get. We are talking about three points, that is 3 percent.

So the decrease of $40,000 plus 3 percent of whatever the sales price would be. That is going to be in the neighborhood of $400,000.

I don't know whether they will sell this next year, this next 90 days, but it hasn't in the previous 90 days when the interest rates are what they are now.

It is very hard to ask this question because it asks you to make a prediction. But nevertheless, are you optimistic enough to believe that interest rates could go down in the next six months?

Secretary BRADY. Well, that is certainly our goal. I think that the Administration and I know Congress share this emphasis on growth, and keeping the economy going is a very important part of that.

Of course, there is another side to the question, which is monetary authorities have a big say in this particular concern. But with regard to the two houses in your district, of course I just can't make any predictions about those houses. I don't know at what level they were offered in the first place. I mean, I don't know whether it was high or low.

But I think when interest rates do blip up as they have in the last couple months, it could have an effect or will have an effect on housing sales. But on the other hand, I think we should not forget that we have made progress in the last year and year and a half in bringing interest rates down, and I certainly hope that will continue.

Mr. ROYBAL. I hope that it will continue. While I don't know what the real estate market is really all about, what I see and what I hear is that some of these real estate people are very unhappy.

Secretary BRADY. Unhappy seller, happy buyer. [Laughter.]

Mr. ROYBAL. They are unhappy as sales people because the buyer is just not there.

Secretary BRADY. Right.

Mr. ROYBAL. They say the buyer is not buying because interest rates are too high for them. Now what the real situation is, no one knows. But we hope that we can reach a time where these interest rates can level off so more people can be buying homes and cars and everything else.

Mr. Lowery.

CUSTOMS OPERATIONS

Mr. LOWERY. Thank you, Mr. Chairman.

Mr. Secretary, welcome. My first observation, is that one of the reasons the economy is doing so well, continuing on its positive growth over the past couple years, is because of your calm and steady leadership.

Not to say that we don't have problems under Treasury's jurisdiction. But I think the recent agreement with Mexico on debt was a very, very positive step in international trade and financial relations.

But let me focus specifically on Customs for a moment. I think the Customs Service has done an incredible job despite tremendous growth in international trade and the influx in their role and interdiction of the drug war.

There has been criticism, particularly I think because of the importance of the drug war, that Customs neglected some of the commercial operations and was lax in its internal financial controls. I am thinking specifically of the recent Ways and Means oversight subcommittee report on Customs operations.

What steps are being taken at the department level to address those concerns?

Secretary BRADY. Congressman, I had a chance in my introductory remarks to mention a discussion that I had with Director Bennett yesterday whereby he agreed that from his drug forfeiture fund he would help us in some of the problems that we are having because of the pressure of reduced personnel.

He told us with regard to Customs that he would work with us on that particular item. I gathered from that that he is going to give us some substantial help. We don't know the exact details this morning because he just gave us that good news yesterday afternoon.

But I hope that within a short period of time we will be able to come back and tell you precisely what he means. But I think it is going to make a big difference.

Mr. LOWERY. When do you think we will have that more definitive? Within a week?

Secretary BRADY. I don't know.

Mr. NUMMY. We obviously have not had a chance to talk yet. We also want to be able to confer with Members of the committee on this side and the Senate side, because ultimately you will make those final decisions.

Mr. LOWERY. Well, the committee is very concerned and this Member in particular is very concerned. And despite the increased attention to the southwest border where more and more of the illegal drugs are coming across, with the absorptions you have had to take, we are still in a net loss position regarding personnel.

And you can't fight a war on drugs if you don't have soldiers. I think asset forfeiture is one way we can get some of the assets that you need.

SOUTHWEST BORDER

Additionally, the Customs Service's tremendous work load, particularly at the southwest border, is due to a whole lot of things. The drug war is a large part of it, but also the growth of legitimate enterprise that is taking place: the growth of the maquiladora industries; the increased travel back and forth between the United States and Mexico; a lot of it is tourist-related, but a lot is the increased number of aliens created by the Immigration Reform Act, causing an additional inspection burden for Customs.

And despite limited personnel, Customs has been doing a good job. We are just not anywhere near keeping up with that growth at the ports of entry, as well as personnel to man those ports of entry.

In fact, last March, a year ago, Customs was to report to this committee, on what additional personnel and facilities were needed to reduce the delays and to meet the growth that was expected. That report has been bottled up for the past year. I understand most of the problem has been over at OMB.

But can you tell us what the status is and when we might be able to see the results of that report that was asked for two years ago?

Secretary BRADY. Well, I know with regard to the southwest border that we've got I believe it is a 175 FTE increase in the border.

David, do you know more of the details as to what other steps were taken?

Mr. NUMMY. Well, there is a specific initiative to add 175 individuals on the southwest border, a $10 million increase.

To reference your report—

Mr. LOWERY. But that is not a net increase.

Mr. NUMMY. That is an increase on the border. It is not an increase within the total Customs Service.

Mr. LOWERY. You are going to have 175 additional personnel over last year despite the absorptions you have had to take?

Mr. NUMMY. That's correct.

Mr. LOWERY. So you are taking those absorptions elsewhere?

Mr. NUMMY. That's correct.

Mr. LOWERY. Okay.

Mr. NUMMY. In reference to the study, I think we did address this before. If I could just expand a little bit, we in the Department and Customs have been spending a great deal of time looking at how are we going to deal with the year 2000; how are we going to deal with the rates of growth that face Customs in international trade.

The southwest border obviously is embedded in that. We are convinced that the way to approach that is to do it as quantitatively and as scientifically as possible. On the study that you requested, you've asked us to determine looking down the future what are the number of people, what are the number of ports that we need to meet that objective.

We are very determined to make sure that the answer we give to you is as correct as we can have it. We feel like the appropriate approach is not based on somebody's best guess or upon a survey you take of people around an agency.

We think that the appropriate approach is to look at some very hard numbers and give you the right answer because we don't want to overestimate but we certainly don't want to underestimate, either.

We recognize the report is late. All I can say is that lateness is due to our desire to have as accurate a report as possible.

Mr. LOWERY. When do you think it will be forthcoming?

Mr. NUMMY. I checked. I understand it is back at the Department. It is a very long, a very detailed report.. It takes a certain time to go through it.

My hope is that we could have that to you within the next two or three months. I would say within the next month and a half to two months.

Mr. LOWERY. So you will have it before mark-up—

Mr. NUMMY. I would hope so.

Mr. LOWERY [continuing]. for the next fiscal year.

PROPOSAL REVENUE ESTIMATES

Let me shift gears over to capital gains. It is something I fully support and I think it would be a real jolt in the arm to the economy and help capital formation, which is so desperately needed.

But as a supporter, I was concerned that the Joint Committee on Taxation just came out with a report stating that $11.4 billion in

revenue would be lost through Fiscal Year 1995, if a capital gains tax is implemented.

Has Treasury addressed that issue and what is your response to it?

Secretary BRADY. I am sorry, Congressman, I didn't hear that last part.

Mr. LOWERY. The Joint Committee on Taxation reported that the capital gains proposal of the Administration would lose $11.4 billion in revenue through Fiscal Year 1995.

What is your response?

Secretary BRADY. I can't speak for the joint committee. I can speak for the Treasury forecasts which are done on the same basis that they always have been done in the past.

They show that over that same period we have a $10—over a $10 billion increase in revenues to the Government. I frankly cannot understand why the estimate that the joint committee has come up with is so far from what we thought it would be. We really thought it would be much lower. We thought it would show a small surplus for that period of time.

We are looking into what the difference between these two estimates are. I must say that one of the things that has perplexed me as a newcomer to Washington is that I don't understand how reasonable people in this town can come up with such wide differences in estimates.

I frankly don't think it helps the discussion very much. It just sort of stops us in our tracks and focuses it out to the wings of the problem rather than in the center where we ought to be talking about it.

So I am perplexed as to how that estimate could be as far from what we thought it could be as it is.

Mr. LOWERY. Mr. Secretary, I would appreciate your getting back to us once you have been able to analyze some of the assumptions that have gone into the projections.

So when you get a better handle on it, get back with us.

Secretary BRADY. It is complex. We are studying it. We will get back to you.

All I know is the Treasury estimates are done pretty much the same way we've done it in previous years. I don't know why the gap is so wide with the joint committee. It is not helpful.

[The information follows:]

CAPITAL GAINS PROPOSAL REVENUE ESTIMATES

Treasury's Office of Tax Analysis (OTA) has estimated that the Administration's capital gains proposal will raise $12.5 billion over the fiscal year 1990–95 period; the Joint Committee on Taxation (JCT) estimated the proposal would result in an $11.4 billion loss. OTA has identified two factors which it believes are responsible for the difference between the revenue estimates.

OTA estimates imply a behavioral response to lower capital gains tax rates that may be characterized as yielding a 23 percent revenue maximizing tax rate. Based on its own model, it believes that the behavioral response assumed by the JCT may be characterized by a 35 percent revenue maximizing tax rate. OTA finds it implausible that tax revenues from the sale of capital assets would be maximized at a 35 percent rate tax—a rate which is significantly higher than the current tax rate on dividend and interest income.

OTA also believes that the estimated "baseline" level of capital gain realizations used by the JCT during the fiscal years 1990–1995 (i.e., the level of gains that are

expected in the absence of any tax change) is much higher than its own "baseline" level. The JCT's higher baseline, which amplifies their estimated loss in revenues, appears to be due to their use of Congressional Budget Office projections of a 50 percent increase in realizations between 1988 and 1990. This is a period in which there are no changes in capital gains tax rates and in which GNP is expected to increase by about 14 percent. OTA thus also regards this assumed jump in realizations as implausible.

ECONOMIC GROWTH

Mr. LOWERY. Let me just finish by asking about the overall health of the economy and your assessment of the economy.

What type of growth do you expect over the next year and how critical a role will inflation be? Does it present much of a threat to the economy?

Secretary BRADY. Well, in the FY 1991 budget we have estimated real growth in the 2.4 to 2.6 area for 1990, and we think, in spite of the fact we had a weak fourth quarter, that the economy will rebound and will get back on track to this approximate range.

Inflation has been stuck at around the 4 percent, 4.5 percent level. At times there were larger increases than that, but if you look beneath the inflation figures, you will see that there was a good healthy increase for the price of oil, which escalated dramatically this last year from $12 a barrel to $20 a barrel. I don't think that we should have anywhere near this similar kind of increase that went into last year's figures.

The same thing to do with food, where we have had droughts in the western part of the country, and I am hopeful that we are not going to have a drought every year. And of course we had a freeze last December which pushed up food prices temporarily.

So I think, you know, coming from California, you care about it more than I do. But I think that on the inflation front, I just don't see how the figures, the conflicting parts that produce the big increase, are going to be repeated as we go forward.

So I think the economy will keep going. I hope that interest rates will reflect the fact that inflation is moderating and that we can continue the progress we made during the past eight years.

Mr. LOWERY. To borrow a phrase from a competing Wall Street investor firm, you are still bullish on America.

Secretary BRADY. Still bullish on America, plenty bullish on America.

Mr. LOWERY. Mr. Secretary, we welcome you here, and I would also like to invite you to tour some of the southwest border. We would love to have you. Come on out to San Diego.

Secretary BRADY. Thank you.

Thank you, Mr. Chairman.

SAN DIEGO VIOLENCE

Mr. ROYBAL. Mr. Secretary, I would like to talk about San Diego as long as it has been mentioned.

It is not my area, but last night at about 11:00 I got a call from an organization in San Diego to tell me about incidents that go on in that area, where vigilantes are actually harassing, abusing and shooting—haven't killed anybody yet as far as I know, aliens people that they consider to be illegal aliens.

Their complaint to me last night was that people that were beaten as of yesterday—and this was on TV yesterday, I understand, here locally, and has been on TV now twice before locally here in D.C.

These people are being beaten, and people are shooting them, and no one is doing anything about it. But they are complaining, because the people who are beaten were members of their organization, and they were born in San Diego.

So they are going after not those people who are illegals, they are going after anyone who is hispanic and who may appear to be illegal, regardless of where they come from.

What worries me is the fact that no one is doing anything about it. Now we had a similar situation years ago when Customs was being blamed for a lot of things that they were not doing, and I went out there. We had a hearing and we were able to work things out.

What is happening now is that Customs is being blamed for this. Customs has nothing to do with this. And it seems to me that somewhere down the line the Government should take a look at this.

Maybe Treasury should, maybe the Department of Justice. But someone should take a look at this thing so this thing just doesn't run rampant.

I don't know if Mr. Lowery has had any complaints about this.

UNITED STATES/MEXICO BORDER

Mr. LOWERY. Mr. Chairman, I would be happy to comment. I have. In fact, two months ago I spent a lot of time with the border patrol.

It is not happening at ports of entry where Customs has responsibility. It is happening at a lot of the smuggling operations for immigrants that are coming across the border where the border patrol has responsibility between our ports of entry.

They are very concerned. They have even had their border patrol agents jumped and ambushed. It is a concern to local law enforcement. In fact, the San Diego Police Department has had a border task force and a number of officers assigned and posing as decoys and illegals, and they have been ambushed in trying to deal with it.

Some of it happens—the incidents are happening on the U.S. side of the border. We call it No Man's Land. For the most part, law enforcement believes that it is Mexican citizens preying upon those that are on the U.S. side where they know they are illegal, and they really have nowhere to turn to authorities for help.

It is being addressed, but we are very, very short of personnel to stop the illegal immigration, let alone the individuals that are preying on those illegal immigrants.

Mr. ROYBAL. The ones we want to stop, of course, would be both. No one has the right to take the law in their own hands, nor do they have the right to beat up anyone or to shoot them when they go to a McDonald's. At least a McDonald's should be a place where you should be free to buy a hamburger without being kicked around. And this happened at a McDonald's.

And the person that called me said those Customs officers, are probably involved. I said,"Look, Customs had nothing to do with it." But that is the first thing that came to his mind.

They weren't blaming the Immigration Service at all. It was Customs. Well, since Customs is one of our services, we don't want that to happen, and we don't want Customs to be blamed for anything that they are not responsible for.

But in this instance, it is a matter of justice, that something has to be done to see to it that these people don't run rampant beating up individuals simply because they happen to be here illegally. They probably forgot that just a few years ago they came here from Russia or from Germany.

Secretary BRADY. Well, I appreciate your support of the Customs Service. I assure you it is not the Customs Service. And I certainly agree it is not up to vigilante groups to shoot at anybody.

PROTECTION FOR FORMER PRESIDENTS

Mr. ROYBAL. All right. I just thought I would mention that, since San Diego was mentioned.

Now the other thing that I wanted to discuss with you, and that is another service that I think needs a lot of attention. That is Secret Service.

But we are having some problems, Mr. Secretary. We are having some problems in the House of Representatives. When we bring up the appropriation for Secret Service, there is always a motion made to take out of that protection for former Presidents.

The arguments, some of them, do make some sense. What is the position of the Administration with regard to this matter? Should we continue to provide Secret Service to former Presidents or should we take the example of ex-President Nixon when he said he would take care of himself and declined Secret Service protection?

What is your position?

Secretary BRADY. Our position, Mr. Chairman, is that it would indeed be unfortunate if we had an incident with regard to a former President, but this should be left up to the former President himself.

Mr. ROYBAL. Is that something that I can say on the floor when it comes up?

Secretary BRADY. Sure.

Mr. ROYBAL. All right. Because we are going to have to defend them and we do every year. We have been able to overcome, we have been able to win it. But there is a vote on his staffing and the votes are pretty close, incidentally. They are not one that you can just run away with it.

But they are close and it is a matter of concern because we want to be able to act on behalf of the Administration in this instance. We want to be sure that we are together on it. And we don't want to be defending something that the Administration doesn't want, at least not this time anyway.

LONG-TERM CARE INSURANCE

I have another question, Mr. Secretary, which has probably already been asked. But I will ask it again. The budget reconciliation

act of 1988 required the Treasury Department to prepare an analysis of the potential uses of tax incentives to promote the purchase of private long-term care insurance.

It is my understanding that that report was prepared and is somewhere but hasn't been received by anyone. When will that report be made available?

Secretary BRADY. David, do you know what the situation on that is?

Mr. NUMMY. The question was asked earlier, sir, and I understand that it is at the Department and it is on its way up.

Mr. ROYBAL. When will we get it? Will you get back to us?

Secretary BRADY. We said earlier as soon as possible and Congressman Hoyer said can you tell us what that means, and I said what we would prefer to do is go back and find out where it is and come back to you and tell you more precisely rather than guess at it.

Mr. ROYBAL. All right. Then the next question is: When will you tell us when this thing will be ready? Will you tell us today, tomorrow, this week or next week?

Secretary BRADY. I don't see any reason why we can't tell you today.

Mr. ROYBAL. All right. Call Tex Gunnels today and let him know.

I don't have any other questions. Do you have any, Mr. Wolf?

NATIONAL SECURITY COUNCIL

Mr. WOLF. Mr. Chairman, I have one question.

Mr. Secretary, what do you think of the idea of including the Secretary of Treasury and maybe the Trade Rep on the National Security Council? Because with the change that is taking place in the world, to be strong militarily we need to be strong economically.

I said earlier that we were the only global power who is strong economically and strong militarily, while the Japanese are strong economically and the Soviets are strong militarily.

What are your feelings about the possibility of having the Secretary of Treasury and the Trade Rep serve on the National Security Council? Do you have any feelings about that?

Secretary BRADY. I think that question is really a matter for the President to answer to you. I do feel there is no lack of access on the part of the Treasury Department to the Council, so I would feel that is entirely up to him.

I don't feel deprived. I don't feel that we are short-cut in any way.

Mr. WOLF. I am not suggesting that. I just thought somehow when a meeting is called, if everyone is there, sometimes there is an oversight just simply because a person isn't there.

Secretary BRADY. I do attend a lot of meetings of the National Security Council as it is now.

Mr. WOLF. But I think it might be helpful if on a regular basis the Secretary of Treasury was a part of the National Security Council and the Trade Rep was also part of the National Security Council.

No further questions, Mr. Chairman.

Mr. ROYBAL. Are there any other questions?

[No response.]

Mr. Secretary, I would like to thank you and your colleagues for your attendance, for your answers to our questions. We have a list of questions that other Members are submitting in writing. I would like to have you answer those questions as soon as possible.

Secretary BRADY. Thank you very much, Mr. Chairman. It is always helpful for us to get your views. You have been a strong supporter of the Department's activities and I want to tell you in person that we appreciate that.

Mr. ROYBAL. I thank you, sir.

The meeting is adjourned.

[Questions for the record, additional information, and the justifications follow:]

Questions for the Record from Congressman Hoyer

Savings and Loans

Mr. Hoyer. Each year, I have asked about the health of our federal financial insurance systems. The issue is still very much relevant, and so I ask again - What is the current state of our insurance systems?

Do the insurance systems and the Treasury have sufficient flexibility to respond to crises in savings and loans and in the banking system? Can the Congress expand or provide any additional help? Can this subcommittee provide any additional help or authority?

The FSLIC and new insurance corporation has been able to keep "Silent Runs" under control. Have silent runs increased since 1988, are they a worsening problem, and again, do you and the funds have the flexibility to deal with them?

Secretary Brady. With regard to thrift insurance obligations, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) authorized over $100 billion to cover the losses for past, present, and future thrift problems and fulfill the government's obligation to insure deposits in failed thrifts. First, government funds were committed to cover the cost of past FSLIC transactions, which are currently estimated at a present value of $40 billion. Second, FIRREA provided the RTC with $50 billion to pay for the existing problem, that is, net losses associated with thrifts that fail from January 1, 1989 through August 9, 1992. Finally, FIRREA authorized up to $32 billion in government funds available through future appropriations to the Savings Association Insurance Fund (SAIF) to pay for future problems.

We do not yet know whether the $50 billion provided to the RTC will ultimately be adequate. The variables that affect the ultimate cost to the RTC include the pattern of interest rates, the performance of local real estate markets, the general condition of regional economics, and how effectively RTC performs its assignments of resolving thrifts and selling assets. As the resolution process goes forward, it may become evident that the $50 billion in RTC spending is insufficient to handle insolvent thrifts. If that is the case, we will share with Congress proposed legislation to make additional resources available by either reallocating to earlier periods resources from the $32 billion authorized for post 1992 losses, or by providing resources in addition to such reallocation.

With regard to the Bank Insurance Fund, which had a net worth of approximately $14.3 billion as of September 30, 1989, the FDIC has indicated that the fund is adequate to pay for foreseeable losses. With regard to silent runs, we believe they are under control. It is true that the thrift industry has experienced a decrease in deposits, but much of this is a result of the conscious efforts of institutions to downsize in order to meet the new capital requirements.

REVENUE ENHANCERS

MR. HOYER. In 1988, in response to a question about providing a Savings Bond check-off for tax refunds, I was informed that instead Treasury was experimenting with mailing out Savings Bond forms with refund checks in 1988. How successful was this program, and what was the amount of bonds that were sold?

SECRETARY BRADY. The Savings Bonds Division mailed 10 million stuffers with IRS refund checks in 1988 and 50 million in 1989. The 1988 mailings generated 5,500 orders, for a response rate of 0.05 percent and sales of $3.8 million. The 1989 mailings generated 21,000 orders, for a response rate of 0.04 percent and sales of $13.0 million. The total number of bonds sold during the two-year period was 53,000.

While the rate of response was low, the Division considers the experiment a modest success because the sales made the effort cost effective. Estimated net cost savings to the Treasury in 1988 were over $200,000 while in 1989 they were over one-half million dollars.

Other Government agencies such as the U.S. Mint also send order blanks with IRS refunds. Because of mailing restrictions and size limitations, only one such order blank can be included with each refund. The Division plans to mail 20 million stuffers with IRS refunds in 1990.

Mr. Hoyer. Last year, in response to a question for the record by Rep. Akaka, you described assault weapons, for purposes of the administrative ban, as weapons that had 1) military appearance, 2) large magazine capacity and 3) semiautomatic version of a machinegun.

In the ban, the UZI Carbine and HK-94 assault rifle were banned. However, the UZI pistol and HK-94 pistol were still allowed to be imported. These weapons have all of the properties listed above, and are actually more concealable making them more desirable for criminal activity. Can you and would you expand the ban to include these weapons?

I am concerned after reading an Oakland police report which found that of the 214 assault weapons seized in 1988, only 12% were obtained illegally, the others were bought over the counter, legally.

What is your position regarding banning domestic counterparts to the imported semiautomatic assault weapons which were banned?

Secretary Brady. The recent ban on the importation of semiautomatic assault-type rifles was based on provisions of existing law. We have no additional statutory authority to ban or restrict domestically produced firearms. The only other firearms subject to restrictions are weapons defined by the National Firearms Act (i.e., silencers, machineguns, etc,)

To be approved for importation, a handgun such as the UZI pistol or the HK-94 pistol must be particularly suitable for or readily adaptable to sporting purposes, and meet the factoring criteria for handguns as established on ATF Form 4590. Since these firearms meet these criteria, authorization for importation was granted.

With respect to domestically produced weapons, we believe that the President's Crime Bill, which prohibits the domestic assembly of guns which are banned from importation, limits the maximum size and detachable magazine, and provides for enhanced penalties for use of a semiautomatic weapon in the commission of a crime of violence, provides strong restrictions and tough penalties for violations.

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TAX REFUND OFFSET

Mr. HOYER. Treasury was running a pilot program two years ago dealing with tax refund offsets. This program allowed certain Federal agencies to collect money people owed them out of refunds from the IRS. This program collected $325 million in 1987 and more in 1988.

Is the program still underway? How much has it collected?

Secretary BRADY. This program is legislatively authorized through January 10, 1994. To date, $1.27 billion has been collected since the inception of the program (1989 collections totalled $348 million).

Mr. HOYER. How many agencies are involved - has it expanded beyond the original 9 in the pilot program?

Secretary BRADY. Fourteen Federal agencies are now participating.

Mr. HOYER. What is your position on this program?

Secretary BRADY. In terms of collections, tax refund offset has been the single most successful collection tool utilized by Federal agencies for non-tax delinquent debt. We hope that there is continued Congressional support for the program.

LATE AND EARLY PAYMENTS

Mr. HOYER. In the past, GAO had reported that the Government was losing funds from late payments and associated interest penalties, and early payments, from interest lost. I have asked each year and been told this situation was improving.

Could you please provide for the record the annual figures on early and late payments since 1986.

Secretary BRADY. Since the GAO study, two events have occurred that should have improved the late payment situation.

-- First, Congress passed the Prompt Payment Act and an amendment which sets specific payment schedules for agency payment to vendors. This legislation also requires the Office of Management and Budget to track and report annually on government's performance.

-- Second, the Treasury has made several electronic payment systems (Fedwire, Vendor Express, third party drafts) available to agencies to reduce the time it takes to move funds once an agency processes the invoice.

PROMPT PAYMENT
($ millions)

	1987	1988	1989
Total Payments	161,615	136,965	*
Payments Paid Late (%)	.8	1.29	*
Interest Penalties Paid	10.7	20.6	*

(* Not yet available from OMB)

However, while percentages of late payments were .8% in 1986 and 1987, there was an increase in 1988 to 1.29%. The figures for 1989 are not yet available to us from OMB.

Mr. HOYER. Are we at the point where it is as good as it gets? If not, what steps will be taken this year to improve the situation?

Secretary BRADY. OMB has the lead for this program. At Treasury we are also awaiting guidance and information from OMB.

IRS COMPUTER CAPABILITY

Mr. Hoyer:

This subcommittee has continually provided the funds requested for computer modification for the IRS, and has been told for years that if the new capability was not in place by 1992, a possible crash of the system could occur.

We have expressed our concern to the IRS, however, I believe that this is sufficiently serious a problem that the secretary should be involved in oversight and management of this initiative to guarantee that we do not run up on the rocks.

What steps have been taken at the Department level to ensure that this modernization program moves forward efficiently and effectively?

Mr. Brady:

We at the Department strongly support the modernization program for IRS.

IRS capacity management studies show that the current tax processing system should meet service center needs until it is replaced in 1994.

To ensure success of the modernization program this has been designated a part of the President's FY 1990 Management-by-Objectives (MBO) system. The Deputy Secretary has met with the Commissioner of IRS to discuss this effort. Critical milestone events, with dates, have been identified.

Periodic high level meetings will be held for follow-up and to provide the necessary Departmental support and visibility to ensure that this work continues in an efficient and effective manner.

CUSTOMS STAFFING REDUCTIONS

Mr. Hoyer: The Subcommittee is concerned that deep cuts have been made in Customs personnel accounts. These cuts are contrary to the goals of winning the war on drugs and improving performance in international trade. What will the impact of a 71 position reduction in the Investigations account be? How many fewer investigations?

Secretary Brady: Although there were adjustments to Customs drug enforcement resources, there were no deep cuts in overall drug staffing. Specifically, there are 5,316 FTE in FY 1990 and 5,349 FTE in FY 1991 (including the Organized Crime Drug Enforcement Task Force staffing).

Furthermore, Customs will minimize the impact of Investigations Program reductions by focusing on high-priority investigations, improving the effectiveness of field agents through specialized training, using undercover operations, using better targeting through intelligence sources such as the Financial Crimes Enforcement Network (FinCEN), and improving cooperation with foreign as well as domestic law enforcement counterparts. Customs expects to maintain the same overall level of investigations.

I would also like to note that 55 of the 71 full-time equivalent (FTE) positions being reduced in this program are the result of a transfer to the Department of Justice (DOJ) for the Organized Crime Drug Enforcement Task Force (OCDETF). The staff will remain in Customs and will perform the same functions. The only change is that DOJ will reimburse Customs for the costs.

Mr. Hoyer: How many fewer missions will occur as a result of cuts of 126 positions in Tactical Interdiction?

Secretary Brady: Customs will strive to maintain the same level of Tactical Interdiction missions, focusing on high priority targets, and using special operations and investigations to increase its responsiveness to any changing smuggling threat.

Mr. Hoyer: 279 positions were cut in Commercial Operations. How will this effect the timeliness of clearance of goods?

Secretary Brady: Because of the vast growth in trade over the last decade, and expected in the next, Customs has been accelerating commercial processing automation and working towards an overall goal of achieving paperless processing. Numerous modules for the Automated Commercial System are in various stages of development and implementation. These modules, such as the Automated Broker Interface (ABI) and the Autcmated Manifest System (AMS), have been designed to enable Customs to work more efficiently, speeding up processing while allowing more selectivity and greater accuracy in enforcement. This greater efficiency is expected to offset any significant impact on the timeliness of clearance of goods.

Mr. Hoyer: The State Department has reported that cocaine and heroin production is up from last year. Heroin is up by 28% and cocaine up by nearly double from a few years ago.

Do you agree with the State Department report?

Secretary Brady: The Department of the Treasury does not dispute the statistics reported by the State Department. The Customs Services does not prepare estimates of drug production or of the drug threat to the United States because we do not have the authority for drug law enforcement activities overseas. We must rely on estimates of the Drug Enforcement Administration, Intelligence Community and the State Department.

Mr. Hoyer: This subcommittee has made major investments in the war on drugs, taking Customs, for example, from 13,680 FTEs in 1980 to 16,663 positions in FY 90. One of the problems we have is in judging the return of our investment. How do you think we ought to judge success?

Secretary Brady: We attempt to allocate our interdiction resources according to the perceived threat as determined by all intelligence resources available. As such, we can only judge its success through comparisons with seizure statistics and threat estimates reported in the prior years. All intelligence and statistics show that the interdiction efforts of the Customs Service in the Southeastern United States have met with significant success. Seizure statistics continue to rise in the southeast and intelligence indicates that smugglers are utilizing Caribbean smuggling routes less than before. Estimates show that smugglers are increasingly utilizing the Southwest Border smuggling routes through Mexico. At this point, it is still premature to judge the effects of Customs increased efforts on the Southwest Border.

Mr. Hoyer: What standards should we use? What good does it do us if we seize more at the borders, if what is being produced is increasing at a faster rate, so that the end result is a drop in prices at the street level?

Secretary Brady: While the Department of the Treasury is thoroughly dismayed with regard to the increase in production of all illicit substances it should be stressed that our role is clearly specified with regard to the prevention of these substances entering the United States. The Justice Department, through the Drug Enforcement Administration, and the Department of State remain the prime agents of international influence on foreign nations as to production and manufacture of these poisonous products. It should be clear that while the price of such drugs has dropped, without the interception of the huge quantities of contraband at our borders the supply

would be incredibly greater and hence the street price lower, due to the availability of such additional drugs. Consequently, our interdiction efforts have played a vital role in the mosaic of narcotics control and our continuing efforts are thwarting the introduction of even greater amounts of these substances into the United States.

Mr. Hoyer: What steps will be taken by Treasury this year that will be different from past years that can be expected to produce a measurable result in the war on drugs?

Secretary Brady: Treasury, through a number of its agencies, primarily the U.S. Customs Service, has historically been involved in the battle against the introduction of contraband drugs into the United States. While any number of new initiatives have been instituted over this history with varying degrees of success, one currently under development is Operation CHEMCON, which in conjunction with DEA promises to reduce and hamper the export of necessary processing chemicals to foreign countries. This program, in conjunction with legitimate chemical companies has shown significant promise in this one area of international cooperation where Customs has a viable and legitimate international role under the administration's comprehensive National Drug Control Strategy.

Questions for the Record from Congressman Lowry

American Subsidiaries of Foreign Corporations

Mr. LOWRY. Is the IRS investigating American subsidiaries of foreign companies on their tax payments?

Secretary BRADY. The Internal Revenue Service (IRS) has continually reviewed the tax returns of American subsidiaries of foreign companies, with particular emphasis on their transfer pricing practices. These cases have been subject to heightened audit activity in recent years. For example, adjustments totaling in excess of $750 million were proposed in just seven of the many cases involving foreign-controlled manufacturers that were open in 1988-1989; other amounts were proposed or collected in settlements in other cases involving U.S. subsidiaries of foreign corporations. We anticipate that this close scrutiny will continue to generate increased tax collections.

OTS Oversight

Mr. Lowery. What improvements will the Office of Thrift Supervision bring to the oversight of the Savings and Loan industry? Does OTS have the resources and authority to adequately oversee this issue? What do you see as the largest remaining obstacle to long-term stabilization of the thrift industry?

Secretary Brady. The Office of Thrift Supervision (OTS), as established by FIRREA, is the primary regulator for federally and state-chartered thrift institutions that have federal deposit insurance and their holding companies. One improvement resulting from the restructuring of the thrift regulator is that the approximately 3,200 employees, formerly employed by the FHLBank System to examine and regulate thrifts, are now employed by the OTS. This restructuring eliminates any potential for conflicts of interests for examiners, since they no longer are paid directly by the thrifts they regulate.

OTS is funded through industry assessments. Because the thrift insurance fund has been placed in the FDIC, OTS does not receive any funding through insurance premiums -- unlike the former Federal Home Loan Bank Board. The OTS's costs will be covered by application, examination and other fees.

Some of the largest remaining concerns regarding the long-term stabilization of the thrift industry are the industry's ability to handle its interest rate risk, its statutorily mandated asset limitations, and its ability to earn profits sufficient to attract and maintain capital.

Progress under the Debt Strategy

Mr. Lowery. Could you provide the committee with a progress report on your efforts to address the Third World debt issue? I am particularly interested in the recent action on Mexico's debt.

Secretary Brady. The concepts made last spring to strengthen the international debt strategy have been forged into far-reaching country reform programs, concrete actions by the IMF, World Bank and creditor governments, and financing packages between debtor countries and their creditor banks which include substantial reduction of debt and debt service burdens.

The watershed agreement between Mexico and its commercial banks was formally completed in February, 1990 with the signing ceremony in Mexico City. Costa Rica and its creditors have reached an agreement in principle on a comprehensive debt and debt service reduction package. Chile's buyback of commercial bank debt in November, 1989 was financed by resources made available under the strengthened debt strategy. The Philippines undertook in January, 1990 a highly successful direct buyback of commercial bank debt as one of the elements of its new financing package with commercial banks. Bolivia, Ecuador, Nigeria, and Uruguay may enter negotiations with the banks in 1990, once they have in place an IMF and World Bank policy reform program.

The Mexican financing package, a medium-term financing agreement for the period 1989 through 1992, is the first practical application of the key elements of the strengthened debt strategy. The package supports the Mexican economic reforms negotiated with the IMF and World Bank, including a medium-term macroeconomic program, trade and financial liberalization, investment reforms, and privatization of the public sector.

The financial support offered by the commercial banks includes options for debt reduction, debt service reduction, and new financing, as follows:

(1) The exchange of outstanding bank debt for a new bond at a 35% discount with market interest rates;

(2) The exchange of outstanding bank debt for a new bond at par, with a reduced, fixed interest rate of 6.25 percent; and

(3) New financing during 1989/92 equal to a total of 25 percent of the bank exposure not exchanged for one of these two instruments.

The debt reduction and debt service reduction bonds are supported by enhancements totaling $7.1 billion from the IMF, World Bank, Japan, and Mexico's own resources. The principal of

World Bank, Japan, and Mexico's own resources. The principal of both bonds will be fully secured by collateral in the form of 30-year zero coupon bonds. Interest payments will be enhanced by 18 months of rolling interest support.

The commercial bank package will generate substantial debt and debt service reduction benefits for Mexico:

- Over 85% of Mexico's bank debt will undergo substantial cuts in interest or principal.
- Mexico's debt obligations to commercial banks will be slashed significantly:
  - -- The debt reduction bonds cut bank debt immediately by about $7 billion.
  - -- The debt service reduction bonds are the economic equivalent of a further implicit reduction in the stock of debt of $7.75 billion.
  - -- Up to an additional $3.5 billion of debt will be retired in the debt/equity swap program by 1992.
- Debt service savings total over $12 billion during the 1989-92 period.
  - -- Annual interest payments to commercial banks will be cut by $1.5 billion (nearly one-third).
  - -- Principal amortization payments will be reduced by $6.7 billion over this period.
- Of even greater importance, the burden of principal payments on $42 billion of Mexico's bank debt are lifted from the shoulders of the Mexican people; this is because Treasury 30-year zero-coupon bonds provided as collateral up front will assure full repayment of the remaining principal amounts of both the debt and debt-service reduction instruments in 2019.
- Overall, the Mexican Government estimates that the net effect is that Mexico's total external debt will decline from $95 billion at the end of 1989 to the equivalent of $80 billion in March 1990. Furthermore, external net transfers will be reduced by more than $4 billion annually, which is equivalent to 4% of GDP.

The final and perhaps most notable benefit of the agreement is the growing confidence in Mexico's economy. Since the agreement was announced last summer, domestic interest rates have fallen sharply, resulting in savings on servicing the government's domestic debt and a reduced fiscal deficit equivalent to 4-5% of GDP. In addition, net private capital inflows in 1989 totalled about $3 billion, indicating increased investor

confidence. These positive developments, combined with Mexican reform efforts, have contributed to an expansion in the Mexican economy. Growth has increased from 1.1% in 1988 to an anticipated 2.5% in 1989. The economy is expanding at a fairly rapid pace, with substantially lower inflation.

These early indicators bode well for Mexico's capacity to achieve sustainable growth in the future. Current projections are that these benefits will help produce growth of 5-6 percent by 1994 and will halve Mexico's debt service and interest service ratios. For these benefits to crystallize, it will be vital for Mexico to sustain its reform efforts.

SPECIAL OCCUPATIONAL TAX AND ATF

Mr. Lowery. The budget calls for increasing the SOT tax on manufacturers and wholesalers of alcoholic beverages. I have heard complaints that ATF was lax in collecting SOT taxes in the past and is now presenting businesses with large back tax bills. What is the reasoning for the changes in the application and collection of the SOT?

Secretary Brady. The changes are being proposed because ATF is able to enforce the tax law with those businesses whose identity is known to ATF. Producers and wholesalers are required to obtain permits from ATF prior to engaging in business; and, therefore, the SOT compliance rate among this group of taxpayers approaches 100 percent.

Retailers, on the other hand, are not required to obtain permits from ATF. The identity of these businesses is not known; and, therefore, the SOT compliance rate is well below 100 percent.

ATF has answered many questions on SOT from Congressional offices and taxpayers. Attached for the record is an information sheet which often accompanies ATF's responses. It provides a brief history of SOT; a discussion of how ATF learns the identity of retailers; and why penalties and interest are assessed on delinquent taxpayers.

DEPARTMENT OF THE TREASURY
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS
WASHINGTON, D.C. 20226

INFORMATION SHEET ON SPECIAL TAX

Special (occupational) tax is imposed by the Internal Revenue Code on persons engaged in various occupations concerned with alcohol, tobacco, and firearms matters. The tax on retail liquor and beer dealers was first imposed over a century ago. From 1959 through 1987, the rate was $24 per year for beer dealers and $54 per year for liquor dealers. Beginning January 1, 1988, the rate was increased to $250 per year for all retail dealers by the Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203).

In July 1987, the responsibility for collecting special tax was transferred from the Internal Revenue Service (IRS) to the Bureau of Alcohol, Tobacco and Firearms (ATF). Prior to that time, the Bureau and IRS shared responsibility for administering the tax. ATF is conducting a nationwide program to identify businesses selling alcoholic beverages at retail who have not paid special tax. As a result of this initiative, special tax collections are being significantly increased.

State liquor licensing authorities and liquor industry associations are being contacted to identify those persons who are engaged in business as retail dealers of alcoholic beverages but have not paid the special tax. Tax returns are prepared and sent to the taxpayer, if special tax is due.

Because retail liquor and beer dealers are not required to obtain a Federal permit to conduct business, the taxpayer's name and address do not appear in ATF's records until special tax is paid. The majority of dealers are aware of the tax and pay it timely. However, despite the best efforts of ATF, some dealers do not learn of the tax.

ATF has used many methods to contact dealers to inform them of the requirement to pay special tax. For instance, ATF has had notices published in trade journals, made mass mailings to all industry and related associations which have been identified, issued press releases, and sent inspectors to the premises. Whenever possible, ATF provides representatives to speak to liquor industry groups and run information booths at trade shows. IRS has published information about special tax in IRS Publication No. 334, Tax Guide for Small Business, since 1956.

At ATF's request, many State and local liquor control authorities are providing information about special tax to new applicants for liquor or beer licenses. However, State and local authorities have no obligation to inform dealers of the Federal special tax liability when issuing State or local licenses.

It is important for taxpayers to file their tax returns and pay special tax on or before the due date in order to avoid penalty and interest charges. ATF mails tax return forms to each taxpayer of record each year in sufficient time to be completed and returned before the tax is due. However, if a tax return form is not received, the taxpayer is still responsible for filing a tax return and paying the tax by the due date.

If a person liable for tax fails to file a return, there is no statute of limitations on assessment and collection of the tax. If a person is liable for special tax but fails to file a return, that person will be billed for the total special tax liability, including penalty and interest charges.

There is no statutory authority for ATF to waive known tax liabilities or interest on unpaid or late-paid taxes. Penalties may be waived if the taxpayer shows that failure to file a return or pay special tax is due to reasonable cause. However, the regulations provide that being unaware of the tax liability is not reasonable cause.

In certain instances, a reduced amount may be collected when an "offer-in-compromise" is submitted by the taxpayer in situations where doubt exists as to the tax liability or where doubt exists as to the collectibility of the tax, such as when the taxpayer is in bankruptcy or otherwise unable to pay the tax liability.

In some cases, the amount due may be too much for the taxpayer to pay at one time. In order to ease the payment burden, ATF will consider a request from the taxpayer to pay the amount due on an installment schedule. Interest on the unpaid balance will continue to accrue, but no collection action will be taken as long as the payments are made as scheduled in the agreement.

ATF regional offices have the authority to act on requests for waiver of penalties, to accept "offers-in-compromise," and to set up installment agreements.

Overestimate of Corporate Tax Receipts

Mr. LOWRY. As you know, it has been reported that corporate tax revenue has been significantly lower than projected under the Tax Reform Act of 1986. It has been over $20 billion each of the last 3 years. A number of explanations have been offered for the shortfall including: larger corporate debt over the past few years; slower growth in the economy; and more foreign ownership of U.S. businesses.

What is your view of this development?

Secretary BRADY. It is true that corporate receipts were significantly lower in 1987-89 than forecast in the first budget issued after Tax Reform was enacted (January 1987 budget). But this should not be taken as a sign that Tax Reform has failed. Economic growth in the economy has not been lower than expected since Tax Reform was enacted. In fact, in each year of the 1987-89 period, real gross national product has exceeded the levels forecast in January 1987.

Tax reform was expected to be revenue neutral, and it was expected to increase corporate tax receipts as a percentage of total income tax receipts. Both these expectations have been fulfilled. Tax Reform is revenue neutral, and corporate tax receipts in 1989 accounted for 10.5 percent of total tax receipts, compared with 8.2 percent in 1986.

The primary reason why corporate receipts have fallen short of their projected levels is that corporate profits have been lower than forecast. Lower-than-expected corporate receipts are directly related to lower-than-expected corporate profits. Corporate receipts for 1987-1989 were on average $23 billion lower per year than forecast in January 1987; corporate profits for the same period were on average $47 billion lower per year than forecast in January 1987.

ERRATA

On December 19, 1989, OMB issued Budget Procedures Memorandum No. 756, Amendment No. 1. This memorandum provided guidance on various Gramm-Rudman-Hollings sequester application issues for FY 1990.

One of the issues addressed in the Memorandum involved account structure changes -- instances where identical activities where funded in different accounts in FY 1989 and FY 1990. This occurred within the Treasury Department in mid-FY 1989 when resources were transferred to the newly established Office of the Inspector General from various accounts. Since the revised OMB Report on Sequestration, dated December 27, 1989 was based on the FY 1989 account structure, the OMB Memorandum required a recalculation of the sequestor to be applied to the affected accounts based on the new FY 1990 account structure, including the new Inspector General account.

As a result, the baseline was recomputed, and FY 1990 sequester computations for five Treasury bureaus -- Departmental Offices, Inspector General, Alcohol, Tobacco and Firearms, and the Secret Service -- were modified.

Unfortunately, the final sequestration calculations for these accounts were not available in time for incorporation into the President's budget. These amounts are as follows:

($ in Thousands)

	FY 1990 as Shown in President's Budget	Actual FY 1990 After Sequester Recalculation
Departmental Offices (S&E)	$ 58,081	$ 57,306
Departmental Offices (IA)	25,010	24,690
Inspector General	15,162	15,043
Alcohol, Tobacco and Firearms	264,058	264,071
U. S. Customs Service (S&E)	1,065,090	1,065,169
U. S. Secret Service	366,262	366,100

Adjusted Object Classification Detail tables for FY 1990 will be submitted to the Congress shortly.

DEPARTMENT OF THE TREASURY

SUMMARY OF THE FY 1991 PRESIDENT'S BUDGET

TOTAL TREASURY BUDGET

- Treasury's FY 1991 budget request is for $256.0 billion and 163,930 total full-time equivalent (FTE) staff years and covers the following areas:

  -- INTEREST PAYMENTS -- $261.8 billion

  These are funds for interest payments needed to finance the public debt ($259.8 billion); interest payments by the IRS on refunds of taxes to taxpayers; and selected interest payments on special accounts handled through the Treasury.

  -- PERMANENT AUTHORITY APPROPRIATIONS AND TRUST FUNDS -- $7.6 billion

  These are funds for special accounts for which the Congress has given the Department permanent authority to expend appropriations. These accounts include repayments of taxes collected for Puerto Rico, payment made when the earned income credit exceeds the taxpayer's tax liability, special claims and damage payments required as a result of judgments against the U.S. government, and payments to Presidential candidates and their parties in accordance with Federal Election Commission certification.

  -- OFFSETTING RECEIPTS -- -$22.0 billion

  Treasury receipts from other government agencies and private sources are subtracted from the total Treasury budget as an offset.

  -- ANNUAL OPERATING APPROPRIATIONS [FUNDING FOR ALL TREASURY BUREAUS] -- $8.7 billion

  These are funds for the Treasury bureaus' activities. Funding for these require appropriation action by the Congress. Details of bureau operating budgets are provided below.

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OPERATING BUDGET [TREASURY BUREAUS]

- The Department's FY 1991 operating budget request is $8.7 billion and 163,930 total FTE, an increase of $581.6 million and 4,078 FTE compared to the FY 1990 proposed levels.

The FY 1991 operating budget has the following major objectives:

- MODERNIZE INFORMATION SYSTEMS: The evolution of information technology and telecommunications will continue to have a major effect on the delivery of services provided by the Department of the Treasury. As our information bases continue to grow, Treasury plans to aggressively upgrade and integrate our existing systems to ensure they will perform in the electronic environment of the next century.

  -- The Internal Revenue Service (IRS) will continue information systems enhancements (an increase of $86.6M and 511 FTE) that will lead to the complete overhaul and modernization of the IRS' tax administration systems. Streamlined tax return processing and improved quality of taxpayer service are some of the benefits to be derived.

  -- The Financial Management Service (FMS) will continue the development and implementation of "System 90", a integrated payment, claims and financial information system. Implementation of "System 90" will eventually allow for initiatives such as electronic certification, messenger authentication, and data encryption. FMS will also upgrade the government's budget execution system "STAR" (+$2.6M) which provides for on-line access and analysis of government-wide financial management information by Treasury, GAO and OMB.

  -- The U.S. Customs Service will continue the development and implementation of new modules for the Automated Commercial System (+$5.3 million and 13 FTE). ACS is the cornerstone of Customs' long-range plans to modernize and automate international trade and import practices thereby reducing the paperwork burden on both Customs and the trade community.

  -- The Bureau of the Public Debt will design a new Series E/EE Bond System (SEAS). This enhancement will provide a broad range of customer services and adequately control savings bonds accounts (+$231 thousand and 5 FTE).

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- IMPROVE INTERNAL CONTROLS: In order to strengthen Treasury's internal controls, resources are included for efforts to identify and resolve deficiencies in financial systems and processes, and fully meet the requirements of the Federal Manager's Financial Integrity Act.

  -- The U.S Customs Service will continue modifications to the Customs Automated Management Information System and to establish a new office to assure that internal controls are effective (+$5.2M and 10 FTE).

  -- The Financial Management Service will develop a consistent, comprehensive approach to improving the Government's financial management (+$600 thousand and 8 FTE) through the initiation of Project U.S.A. (Unified Systems Approach)

  -- The Bureau of the Public Debt will develop "PARS" the Public Debt Accounting and Reporting System to account for and balance public debt securities and financial transactions, produce accurate and more timely information, and strengthen accounting controls (+$235 thousand).

  -- The Office of the Inspector General conducts and supervises audits and investigations designed to promote economy, efficiency and effectiveness in Treasury's operations. An increase of $6.1M and 46 FTE is requested in FY 1991.

- INCREASE ENFORCEMENT OF THE TAX LAWS: The request for the Internal Revenue Service includes an increase of $191 million and 3,476 FTE to fortify IRS examination, audit and collection efforts, addressing both short and long term objectives. Besides gradually increasing direct enforcement revenue, these initiatives are expected to promote voluntary compliance with the tax laws by all taxpayers.

- LAW ENFORCEMENT AND THE WAR ON DRUGS: Within Treasury's overall law enforcement and protection responsibilities, the War on Drugs will continue as a national priority in FY 1991. The Office of National Drug Control Policy (ONDCP) is responsible for the development of a comprehensive strategy to address the problem. As a major participant in the War on Drugs, Treasury is committed to work with the ONDCP in determining how our resources best can be utilized.

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-- The Internal Revenue Service will expand its capabilities to investigate money laundering and tax fraud (+$20.0M and 143 FTE) in response to the Anti-Drug Abuse Act of 1988. This enhancement will enhance the expertise of IRS special agents in tracing and documenting financial receipts related to the sale, movement, and/or importation of illegal drugs into and within the United States.

-- The Customs Service will strengthen the President's War on Drugs through increased cargo, vehicle, and passenger inspections along the Southwest border, stepped up operation of air interdiction assets acquired or modified in previous years as well as expand capabilities to investigate money laundering. Customs total request includes an increase of $47.8M and 33 FTE to fight the War on Drugs, offset by -$94.5M in nonrecurring equipment costs principally in the air program.

-- The Federal Law Enforcement Training Center budget will fund the interagency training facility at Glynco, Georgia that provides basic and advanced law enforcement training for federal, state, and local agencies. It provides funds for the Center's continuing training efforts, as well as construction and facility improvements which help fight the War on Drugs.

-- The Bureau of Alcohol, Tobacco and Firearms request includes an additional $6.3M and 18 FTE for support of the armed career criminal task forces as well as establish additional task forces nationwide. This increase also combats violent crimes by preventing armed career criminals from obtaining firearms which are frequently used by the violent drug criminal.

-- The Secret Service budget provides protection and security for the President, Vice President and visiting heads of State. The Service's anti-drug activities are associated with ongoing criminal investigation involving counterfeiting, money laundering and other financial crimes. An increase of $.5M and 4 FTE will provide additional support for the Service's efforts in drug-related counterfeiting cases.

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- IMPROVE MANAGEMENT OF THE NATION'S FINANCES: The Financial Management Service, Bureau of the Public Debt and the U.S. Savings Bonds Division will continue the Administration's efforts to improve customer service to holders of government securities, cash management, debt collection and government-wide financial information systems.

  -- The Financial Management Service will provide a new service of electronic payments to government beneficiaries who do not have bank accounts (+$1.4M). Additionally, FMS will reduce the risk of defaults on government backed loans by implementing the "Guaranteed Loan Management Program" ($3.5M).

  -- The Bureau of the Public Debt continues to improve the timeliness and accuracy of accounting for the Public Debt as well as reducing operating costs through initiatives that provide an up-to-date automated processing environment.

- MEET THE NATION'S DEMAND FOR CURRENCY AND COINAGE:

  -- The budget for the U.S. Mint will provide for production of sufficient coinage to meet expected demand. The Mint will continue developing a more efficient coin materials handling system (+$550 thousand). The Bureau of Engraving and Printing, which does not require annual appropriations, will meet the Nation's demand for currency.

- POLICY FORMULATION AND MANAGEMENT OVERSIGHT OF DEPARTMENTAL OPERATIONS:

  -- The FY 1991 budget will permit the Department to develop and carry out the Nation's economic, financial, and tax policies. These responsibilities will be met by the various Departmental Offices supporting the Secretary.

INTERNATIONAL FINANCIAL INSTITUTIONS

- The Multilateral Development Banks (MDBs) provide technical assistance and project financing on both near-market and concessional terms for development projects in less developed countries. Funding is provided by developed and some advanced developing nations through replenishment of resources and increases in capital.

- The Enhanced Structural Adjustment Facility (ESAF) was created in 1987 to enable the International Monetary Fund to provide balance of payments assistance on concessional terms to low-income developing countries with protracted payments problems which are prepared to adopt multi-year economic and structural reform programs.

DEPARTMENT OF THE TREASURY
COMPARISON OF APPROPRIATIONS AND ESTIMATES FOR TREASURY BUREAUS
(IN THOUSANDS OF DOLLARS)

APPROPRIATION	FY 1989 ENACTED	ESTIMATES FY 1990	ESTIMATES FY 1991
OFFICE OF THE INSPECTOR GENERAL....	$6,052	$15,162	$21,296
DEPARTMENTAL OFFICES:			
Salaries and Expenses.....	56,694	58,081	63,083
International Affairs.....	22,000	25,010	27,517
Subtotal, DO.....	78,694	83,091	90,600
FED. LAW ENFORCEMENT TRN. CENTER...			
Salaries and Expenses.....	34,364	35,499	36,727
Acquisition.....	20,000	15,000	18,735
Subtotal, FLETC.....	54,364	50,499	55,462
FINANCIAL MANAGEMENT SERVICE:			
Salaries and Expenses.....	280,330	285,669	218,742
St. Lawrence Seaway *.....	11,145	10,020	10,789
ALCOHOL, TOBACCO AND FIREARMS.....	240,212	264,058	275,284
U.S. CUSTOMS SERVICE:			
Salaries and Expenses.....	1,030,147	1,065,090	1,120,086
Aircraft Operations & Maint.....	149,262	230,363	143,047
Forfeiture Fund.....	9,714	14,855	14,855
Small Airport User Fee.....	488	2,152	2,152
Subtotal, USCS.....	1,189,611	1,312,460	1,280,140
U.S. MINT.....	47,000	50,051	51,429
Expansion and Improvement.....	0	0	550
ADMINISTERING THE PUBLIC DEBT.....	218,072	193,906	175,139
Government Losses in Shipment....	960	0	500
INTERNAL REVENUE SERVICE:			
Salaries and Expenses.....	86,463	72,241	0
Processing Tax Returns.....	1,672,065	1,918,677	0
Examinations and Appeals.....	1,905,019	1,907,294	0
Invest., Collec. Taxpayer Serv...	1,531,193	1,601,550	0
Administration & Management.....	0	0	121,448
Processing Tax Returns & Assist..	0	0	1,449,741
Tax Law Enforcement.....	0	0	3,499,950
Information Systems.....	0	0	1,063,861
Subtotal, IRS.....	5,194,740	5,499,762	6,135,000
U.S. SECRET SERVICE.....	356,922	366,262	397,640
TOTAL, DEPARTMENT OF THE TREASURY..	7,678,102	8,130,940	8,712,571
INT'L FINANCIAL INSTITUTIONS:			
Multilateral Development Banks...	1,314,630	1,469,190	1,736,269
Int'l Monetary Fund (ESAF).....	0	139,398	10,602

*Considered by Subcommittee on Transportation.

DEPARTMENT OF THE TREASURY
TOTAL WORKYEARS (FTE) FOR TREASURY BUREAUS

APPROPRIATION	FY 1989 ACTUAL	ESTIMATES FY 1990	ESTIMATES FY 1991
OFFICE OF THE INSPECTOR GENERAL	88	290	306
DEPARTMENTAL OFFICES	1,311	1,309	1,309
FED. LAW ENFORCEMENT TRN. CENTER	387	429	429
FINANCIAL MANAGEMENT SERVICE:			
Salaries and Expenses	2,331	2,217	2,275
St. Lawrence Seaway	5	5	5
ENGRAVING AND PRINTING	2,182	2,346	2,421
ALCOHOL, TOBACCO AND FIREARMS	3,620	3,850	3,850
U.S. CUSTOMS SERVICE:			
Salaries and Expenses	17,038	17,479	17,258
Aircraft Operations & Maint	0	0	0
Forfeiture Fund	0	0	0
Misc. Permanent Appropriation	286	309	313
Small Airport User Fee	12	30	30
Subtotal, USCS	17,336	17,818	17,601
U.S. MINT	2,101	2,261	2,108
Coinage Profit Fund	43	5	0
ADMINISTERING THE PUBLIC DEBT:			
Bureau of the Public Debt	1,955	1,967	1,975
Savings Bonds Division	252	252	252
Subtotal, APD	2,207	2,219	2,227
INTERNAL REVENUE SERVICE:			
Administration & Management	1,821	1,048	2,386
Processing Tax Returns & Assist	36,796	38,941	34,236
Tax Law Enforcement	76,745	75,862	75,094
Information Systems	0	0	8,336
Subtotal, IRS	115,362	115,851	120,052
U.S. SECRET SERVICE	4,288	4,436	4,531
COMPTROLLER OF THE CURRENCY	3,223	3,246	3,246
OFFICE OF THRIFT SUPERVISION	0	3,570	3,570
SUBTOTAL	154,484	159,852	163,930
PROPOSED LEGISLATION:			
U.S. MINT NUMISMATIC PROGRAM (Non-add)	0	0	[1,407]
TOTAL, DEPARTMENT OF THE TREASURY	154,484	159,852	163,930
MULTILATERAL DEVELOPMENT BANKS	0	0	0

DEPARTMENT OF THE TREASURY
PROPOSED AUTHORIZED LEVEL FOR FY 1990 COMPARED TO FY 1991 REQUEST
(Dollars in Thousands)

	Direct FTE	Amount
FY 1990 APPROPRIATIONS (P.L. 101-136)	146,945	$8,152,877
FY 1990 APPROPRIATIONS (P.L. 101-164)	0	73,800
FY 1990 RESCISSIONS (P.L. 101-164)	0	(21,427)
SEQUESTERATION (P.L. 99-117, P.L. 100-119 & P.L. 101-239)	0	(76,810)
TRANSFER FROM DEPARTMENT OF DEFENSE	0	2,500
PROPOSED FY 1990 LEVEL	146,945	8,130,940
Changes Proposed for FY 1991:		
o PROPOSED PROGRAM INCREASES		
IG Office of Thrift Supervision	30	2,578
IG Investigations	8	430
IG Audit	3	165
IG ADP Resources	0	974
IG Policy, Planning & Resources	0	332
DO International Affairs	0	789
DO Automated Information Systems	0	804
DO Repairs and Improvements	0	427
FLETC Financial Fraud Institute	0	1,001
FLETC Artesia Plant Operations	0	225
FLETC Master Plan Construction	0	14,955
FLETC Maintenance of Facilities	0	300
FMS Electronic Certification	3	1,123
FMS STAR	0	2,600
FMS ADEPT Enhancements	0	50
FMS Project U.S.A.	8	600
FMS Electronic Benefit Services	0	1,350
FMS Guaranteed Loan Management Program	0	3,500
FMS Government Credit Standards	0	280

DEPARTMENT OF THE TREASURY
PROPOSED AUTHORIZED LEVEL FOR FY 1990 COMPARED TO FY 1991 REQUEST
(Dollars in Thousands)

		Direct FTE	Amount
FMS	Federal Tax Refund Offset-Direct	0	250
FMS	Litigation	0	250
FMS	St. Lawrence Seaway Rebate of Tolls	0	769
ATF	Restoration of Base Staffing Reductions	51	3,507
AFT	Information Systems	5	257
ATF	GSA Space Rental	0	2,651
USCS	Internal Controls	10	5,200
USCS	Canine Teams and Facilities	23	5,400
USCS	Money Laundering	0	1,574
USCS	Southwest Border Inspections	175	10,000
USCS	ACS	13	5,300
MINT	Expansion and Improvements	0	550
MINT	Support Services and Supplies	0	737
MINT	Equipment	0	782
MINT	Lands and Structures	0	360
MINT	Restoration of A-76 Reductions	45	647
BPD	Government Losses in Shipment	0	500
BPD	Regional Delivery System	3	4,120
BPD	SEAS	5	231
BPD	PARS	0	235
SBD	Education Bond Brochures	0	900
IRS	Collection of Additional Tax Revenue	3,476	151,000
IRS	Improve Tax Administration	72	3,764
IRS	Anti-Drug Abuse Act	143	19,984
IRS	ADP Systems Modernization	629	146,163
USSS	Additional Positions	95	9,055
USSS	Technical Security Program	0	1,075
USSS	Technical Security Countermeasures Program	0	780
USSS	Premanent Protection Program	0	3,675
USSS	New York Field Office Renovations Project	0	3,200
USSS	Candidate Nominee Protection	0	5,894
USSS	Replacement Vehicles	0	1,000
USSS	ADP Programs	0	875
USSS	Communications Program	0	700
USSS	Maintenance-Rowley Training Center	0	352
	Subtotal	4,797	464,220

TUESDAY, FEBRUARY 27, 1990.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

WITNESSES

STEPHEN E. HIGGINS, DIRECTOR, BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

DANIEL R. BLACK, ASSOCIATE DIRECTOR [COMPLIANCE OPERATIONS]

DANIEL M. HARTNETT, ASSOCIATE DIRECTOR [LAW ENFORCEMENT]

ARTHUR J. LIBERTUCCI, JR., COMPTROLLER

DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT, DEPARTMENT OF THE TREASURY

Mr. ROYBAL. The committee will now hear from the Bureau of Alcohol, Tobacco and Firearms. Please proceed in any manner that you may desire.

Mr. HIGGINS. Thank you, Mr. Chairman and Members of the Subcommittee. We appreciate the opportunity to appear before you on behalf of our Fiscal Year 1991 request. In our view, the amounts requested are reasonable and justifiable considering the many competing demands for scarce Departmental resources.

With me today are Dan Hartnett, the Associate Director for Law Enforcement; Dan Black, the Associate Director for Compliance Operations; and Art Libertucci, our new Comptroller. Both Mr. Black and Mr. Libertucci are making their first appearance before the Committee.

Mr. ROYBAL. I would like to at this point welcome both of them before the committee, and since is their first appearance, we want to make a good impression. I think that we can say that this is a very friendly committee. And with that opening remark, I hope our friendship continues with success.

Mr. HIGGINS. Thank you, Mr. Chairman. From past experience, we know that the Committee and its competent staff are going to have a number of important questions to ask in a very limited amount of time. Accordingly, I would like to introduce my narrative statement for the record, with your permission.

Mr. ROYBAL. And without objection, that will be the rule.

[The prepared statement of Stephen E. Higgins and biographical sketches follow:]

DEPARTMENT OF THE TREASURY

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

Statement of Stephen E. Higgins, Director, for Presentation to the Subcommittee of the Committee on Appropriations

GENERAL STATEMENT

Mr. Chairman and Members of the Subcommittee, it is a privilege to appear before you in support of the FY 1991 budget request for the Bureau of Alcohol, Tobacco and Firearms. Accompanying me are my colleagues: Mr. Daniel Black, Associate Director, Compliance Operations; Mr. Daniel Hartnett, Associate Director, Law Enforcement; Mr. Arthur J. Libertucci, Jr., Comptroller; and Mr. Paul Gentille, Financial Manager.

FY 1991 Budget Summary

Our FY 1991 budget proposes to essentially maintain the level of effort expended in FY 1990. Although we are requesting additional resources to annualize the anti-crime initiative and for other adjustments, our request is tempered by requirements to absorb program and other reductions. The net effects of these changes are to increase funding by $11,213,000 and to maintain the FY 1991 full time equivalent (FTE) positions at the same 3,706 level authorized for FY 1990.

Today, we are prepared to discuss our proposed budget with you, summarize our accomplishments for FY 1989 and respond to any questions you may have.

DRUG-RELATED EFFORTS

Based on the Bureau's evaluation of resources devoted to the anti-drug effort, ATF's drug control program is computed as approximately 50 percent of the Bureau's Law Enforcement budget function, and a small percentage of Compliance Operations budget function. Overall, approximately 39 percent of ATF's FY 1991 budget request is drug-related.

Law Enforcement (LE) has several drug-related initiatives in operation which are discussed below.

Organized Crime Drug Enforcement Task Force (OCDETF)

ATF efforts during FY 1991 will continue to be directed against violations of Federal firearms and explosives laws committed by organized criminal groups, whose principal income is derived from trafficking in illegal drugs. With the passage of the Anti-Drug Abuse Act of 1988, Organized Crime Drug Enforcement Task Force (OCDETF) resources were transferred in FY 1990 to a separate appropriation under the Department of Justice. Although policy guidance will be provided by Justice, ATF will actively participate in OCDETF on a reimbursable basis during FY 1991.

The following cases exemplify some of the significant results achieved by the Bureau's OCDETF participation during FY 1989:

Jacksonville, Florida. On December 21, 1988, a Federal grand jury indicted 22 narcotics traffickers for crack cocaine distribution. Seven of these subjects were additionally charged with violation of 18 U.S.C. section 924(c). The subjects belong to an organization, headed by two brothers, responsible for the distribution of approximately 150 kilograms of crack cocaine in the

Jacksonville, Florida, area. On December 11, 1988, State search and arrest warrants were executed resulting in the arrest of the 22 subjects. Pursuant to the warrants, 20 firearms; 1 kilo of crack cocaine; 1/2 kilo of cocaine; 6 vehicles; 2 houses in Dade County, Florida; and thousands of dollars of household furnishings were seized.

Concord, New Hampshire. On December 1, 1988, 22 subjects were arrested in a massive sweep by ATF and the New Hampshire State Police Department. A 52-page indictment released the previous day described a Continuing Criminal Enterprise which trafficked in over several hundred kilograms of cocaine between 1982 and 1988. The indictment alleged that the subject who heads this organization was responsible for the importation of over 2,000 pounds of cocaine. Pursuant to the raid, approximately 20 pieces of property, all generated from the cocaine industry, and over 20 firearms were taken into custody.

Chicago, Illinois. On October 27, 1989, Federal arrest warrants were executed for 65 members and associates of the El Rukn street gang at various locations in Chicago, Illinois; Columbus, Ohio; St. Paul, Minnesota; Milwaukee, Wisconsin; and Greenville, South Carolina. On October 26, 1989, a grand jury returned indictments against these individuals for numerous violations of Federal firearms and explosives laws, the Racketeer Influenced and Corrupt Organizations Act (RICO), and Continuing Criminal Enterprise (CCE) statutes. To date, 38 El Rukn members are in custody resulting from the indictments. In addition, 51 El Rukn associates were taken into State custody by the Chicago Police Department for various firearms, narcotics, and obstruction of justice charges.

These indictments resulted in five high ranking El Rukn members receiving extensive terms for their murder convictions. This was a joint ATF and Chicago Police Department investigation.

Organized Crime Gangs

Also under the auspices of OCDETF, ATF has been involved in the investigation of a number of organized crime gangs. Two of the most notable concerns are our national effort aimed at the Jamaican posses and the Crips and Bloods gangs.

Jamaican Posses

Posse members' propensity for violence, as documented in over 2,000 narcotics-related homicides, and their proclivity towards firearms have made them vulnerable to those statutes enforced by ATF. In January 1987, ATF initiated a national program with other Federal, State, and local law enforcement agencies to identify posse members and uncover their illegal narcotics organizations. Through FY 1989, ATF has initiated 293 investigations directed towards posse members and associates. As a result of these investigations, 200 criminal cases charging 433 defendants with various firearms violations have been recommended to the appropriate U.S. attorneys for prosecution, and 277 firearms have been seized.

The following cases exemplify some of the significant results achieved by the Bureau's Jamaican posse participation during FY 1989:

Miami, Florida. On April 14, 1989, four members of the Jamaican Shower posse who controlled the narcotics and gun distribution for the posse in Bronx, New York, were sentenced in U.S. District Court, Miami, Florida, for conspiracy to distribute marijuana/cocaine, violations of the interstate travel act, and Federal firearms laws. These four defendants received a combined prison sentence of 85 years. An upcoming trial will charge two of the defendants with RICO charges, to include homicides that the organization committed to carry out their illegal enterprise.

Atlanta, Georgia. On March 22, 1989, 11 members of the Van Horne/Booker Jamaican drug trafficking organization were indicted by the Federal grand jury in Atlanta, Georgia, for various violations of Federal narcotics statutes. The early culmination of this investigation resulted when a confidential informant was compromised and his life threatened.

On March 23, 1989, during a coordinated roundup, four members of this organization were arrested; the remaining

DEPARTMENT OF THE TREASURY
PROPOSED AUTHORIZED LEVEL FOR FY 1990 COMPARED TO FY 1991 REQUEST
(Dollars in Thousands)

	Direct FTE	Amount
o PROGRAM ANNUALIZATIONS	1,839	104,487
o ADJUSTMENTS TO MEET CHANGES IN WORKLOAD	213	11,663
o MAINTAIN CURRENT PROGRAM LEVELS	0	432,100
o REDUCTIONS, NONRECURRING COSTS AND SAVINGS	(846)	(194,004)
o TRANSFERS	(55)	(17,445)
o PROGRAM REDUCTIONS	(2,372)	(219,390)
Total FY 1991 Changes	3,576	581,631
FY 1991 PRESIDENT'S BUDGET	150,521	8,712,571
o PROPOSED LEGISLATION U.S. Mint Revolving Fund (Non-add)	(1,047)	0
TOTAL, DEPARTMENT OF THE TREASURY	150,521	8,712,571

January 29, 1990

DEPARTMENT OF THE TREASURY
SELECTED WORKLOAD MEASURES
(In millions)

	FY 1989	FY 1990	FY 1991	CHANGE
INTERNAL REVENUE SERVICE:				
TAX RETURNS FILED	199.6	202.8	205.2	1.2%
RETURNS EXAMINED	1.2	1.3	1.4	7.7%
SERVICE CENTER CONTACTS	0.4	0.5	0.8	60.0%
TAXPAYERS ASSISTED	80.4	79.4	80.5	1.4%
U.S. CUSTOMS SERVICE:				
FORMAL ENTRIES OF MERCHANDISE PROCESSED	8.9	9.3	9.7	4.3%
ARRIVING PASSENGERS PROCESSED	345.2	416.6	421.7	1.2%
ARRIVING CARRIERS PROCESSED	114.9	120.2	125.6	4.5%
U.S. MINT:				
COINS PRODUCED	18,034.0	18,000.0	17,000.0	-5.6%
BUREAU OF THE PUBLIC DEBT:				
SAVINGS-TYPE SECURITIES SOLD	96.0	104.5	91.0	-12.9%
SAVINGS-TYPE SECURITIES REDEEMED	65.9	62.0	69.0	11.3%
FINANCIAL MANAGEMENT SERVICE:				
TOTAL PAYMENTS MADE (CHECKS AND ELECTRONIC FUNDS TRANSFERS)	764.1	773.5	782.8	1.2%
BUREAU OF ENGRAVING AND PRINTING:				
CURRENCY PRODUCED	6,331.0	6,002.0	8,000.0	33.3%
POSTAGE STAMPS PRODUCED	32,318.0	36,183.0	39,392.0	8.9%
ALCOHOL, TOBACCO AND FIREARMS:				
ALCOHOL INSPECTIONS	0.013	0.010	0.009	-7.1%
FIREARMS INSPECTIONS	0.010	0.012	0.013	8.9%
EXPLOSIVE INSPECTIONS	0.004	0.004	0.004	0.0%
U.S. SECRET SERVICE:				
INVESTIGATIONS CLOSED	0.152	0.159	0.161	1.3%

DEPARTMENT OF THE TREASURY
FUNDING LEVELS IN THE FY 1991 PRESIDENT'S BUDGET
(IN MILLIONS OF DOLLARS)

	FY 1989 ACTUALS	ESTIMATES		PERCENT INCREASE/ DECREASE
		FY 1990	FY 1991	
ANNUAL APPROPRIATIONS.....	7,678.1	8,130.9	8,712.6	7.2%
INTEREST PAYMENTS.....	242,660.2	256,843.4	261,761.1	1.9%
o Interest on Public Debt	240,863.2	254,850.4	259,763.5	1.9%
o Interest on IRS Refunds	1,777.0	1,971.3	1,975.7	0.2%
o Interest on Uninvested Funds	19.9	21.7	21.9	0.9%
TRUST FUNDS.....	680.7	210.0	18.4	-91.3%
o Gifts and Bequests	0.1	1.0	0.5	-50.0%
o Federal Financing Bank	654.5	191.3	0	-100.0%
o Miscellaneous Trust Funds	0.0	0.1	0.1	0.0%
o Ref, Tran & Exp Abandonded Goods	26.1	17.6	17.8	1.0%
OTHER.....	175.0	876.0	2,062.6	135.5%
o Payments to Farm Credit System	175.0	90.0	99.3	10.4%
o Payment Resolution Funding Corp	0.0	786.0	1,726.0	119.6%
o Child Care Tax Credit	0.0	0.0	157.0	N/A
o Reimb. Federal Reserve Banks	0.0	0.0	80.2	N/A
PERMANENT AUTHORITY APPROPRIATIONS...	5,159.4	5,302.3	5,485.3	3.5%
o Pres. Election Campaign Fund	32.3	30.0	29.0	-3.3%
o Claims, Judgments & Relief Acts	509.9	426.5	426.5	0.0%
o Collection of Taxes for Puerto Rico by:				
Alcohol, Tobacco and Firearms	272.1	272.0	272.0	0.0%
U.S. Customs Service	116.4	129.0	135.0	4.7%
o Customs Forfeiture Fund	58.8	35.0	34.5	-1.4%
o Payments from Forfeited Assets	0.0	30.0	40.0	33.3%
o Coinage Profit Fund	5.8	20.4	4.1	-80.0%
o Reimb. State & Local Law Enforc	0	0	0.1	N/A
o Earned Income Credit	4,002.0	4,193.0	4,369.0	4.2%
o Contrib. for Annuity Benefits	18.0	17.7	18.0	1.4%
o COBRA	144.0	148.6	157.1	5.7%
OFFSETTING RECEIPTS.....	(24,273.2)	(22,864.9)	(22,024.6)	-3.7%
TOTAL, DEPARTMENT OF THE TREASURY....	232,080.1	248,497.7	256,015.3	3.0%
INTERNATIONAL FINANCIAL INSTITUTIONS:				
MULTILATERAL DEVELOPMENT BANKS.....	1,314.6	1,469.2	1,736.3	18.2%
INTERNATIONAL MONETARY FUND (ESAF).	0.0	139.4	10.6	-92.4%

defendants are still being sought. Two Federal search warrants were executed, which resulted in the seizure of two firearms; quantities of cocaine and marijuana; $25,000 in U.S. currency; business and residential property; and business records.

Raleigh, North Carolina. In February 1988, ATF began a major Jamaican posse investigation in Raleigh, North Carolina. During the course of this investigation, 316 Federal and State criminal charges were made against 156 suspects. Approximately 89 aliens were identified as gang members, associates, or potential witnesses against targets of the OCDETF investigation. There have been 46 Federal defendants to date, of which 40 have pled guilty, 2 are awaiting trial, and 4 are fugitives. Of the 46 that pled guilty, 9 are aliens subject to deportation. Eight additional suspects are presently awaiting indictment and trial; 2 of them have been identified as deportable Jamaican aliens. Narcotics seized during this investigation include cocaine, crack cocaine, marijuana, and heroin--with a street value in excess of $500,000. In addition, more than 32 assorted weapons were seized.

New York, New York. On December 1, 1989, the leader of a Jamaican posse was sentenced to seven consecutive life sentences for violations of the Federal RICO statutes, an additional consecutive life sentence for operating a Continuing Criminal Enterprise, and three consecutive, 5-year sentences for use of a firearm in a drug-trafficking crime. In 1987, this posse was responsible for seven homicides and 15 drug-related shootings.

Washington, DC. On July 17, 1989, the leader of a Jamaican posse and two of his associates were each convicted of use of a machinegun in a drug-trafficking crime. Each defendant received a mandatory sentence of 30 years. This is the first conviction under this statute in the District of Columbia.

Houston, Texas. In October 1988, an investigation was initiated regarding a Jamaican narcotics trafficking group. The investigation netted 125 pounds of marijuana, $257,535 in cash, two handguns, and one vehicle. Seven subjects were arrested.

Crips and Bloods

The Crips and Bloods gangs, originating from Los Angeles, also share a propensity for violence involving firearms in the conduct of their narcotics trafficking. They have increased

their membership over the past 3 years and have spread throughout the United States. In November 1988, ATF initiated a national program with other Federal, State, and local law enforcement agencies to identify Crips and Bloods members and uncover their illegal narcotics organizations. Through FY 1989, ATF has initiated 278 investigations directed towards Crips and Bloods members and associates. As a result of these investigations, 148 criminal cases charging 221 defendants with various firearms violations have been recommended to the appropriate U.S. attorneys for prosecution, and 360 firearms have been seized.

The following cases exemplify some of the significant results achieved by the Bureau's Crips and Bloods participation during FY 1989:

Los Angeles, California. *On May 5, 1989, ATF, DEA, and the Los Angeles Police Department executed 16 State search warrants and 14 Federal arrest warrants on members of the Five Deuce Hoover Crips gang. This is a violent Los Angeles street gang, some of whose members are suspects in ongoing homicide investigations and are heavily involved in the sale of rock cocaine. Subsequent to the warrants, 17 individuals were arrested, one of whom was a fugitive. In addition, approximately $12,000 in U.S. currency, 2 kilos of rock cocaine, 5 shotguns, 3 pistols, 2 revolvers, 2 rifles, 12 vehicles, 2 residences, and narcotics paraphernalia were recovered at several of the locations. This investigation was initially developed by ATF.*

Akron, Ohio. *On June 1, 1989, a combined Federal and local task force, totaling over 175 ATF and FBI special agents and local police officers, successfully raided 40 suspected "L.A. Crips" crack houses and locations in Akron, Ohio, and vicinity. The fruits of that combined effort yielded 31 defendants, a large quantity of cocaine, approximately $15,000 in U.S. currency, 4 vehicles, and 25 firearms, which were taken into ATF custody. One-third of the defendants arrested are suspected Crips gang members. This was an ATF-initiated investigation.*

Oklahoma City, Oklahoma. In March 1989, an investigation of the Crips was initiated when it was determined that they were setting up a narcotics distribution network in the area. Subsequent investigation resulted in the arrest of three Crips gang members, and the seizure of 3 1/2 pounds of cocaine, two firearms, and $3,000 in cash.

ATF is continuing its investigations of the Crips and Bloods organizations, and more arrests are anticipated during FY 1990 and FY 1991.

Operation Alliance

Operation Alliance is an ongoing multi-agency effort to interdict drugs and other contraband smuggled across the Southwestern border. Its operations take place roughly within 158 miles of the U.S./Mexico border and in the coastal waters adjacent to the Texas and California borders with Mexico. Initiated in July 1986, Operation Alliance embodies the strategy to enhance and coordinate Federal, State, and local drug enforcement and related activities along the Southwest border.

ATF's objective in Operation Alliance is to maximize use of statutory authority and all available resources in an effort to identify, target, and prosecute those individuals and groups who are suspected of being directly involved in international narcotics trafficking across the Southwest border; to include the narcotics manufacturer, transporter, importer, and receiver/distributor. Also targeted are those individuals or groups who function in a manner that supports the narcotics trafficking operation (e.g., firearms licensees who knowingly provide firearms to narcotics traffickers).

Through FY 1989, ATF initiated 232 Operation Alliance investigations. As a result of these investigations, 166 criminal cases charging 274 defendants with various firearms violations have been recommended to the appropriate U.S. attorneys for prosecution, and 416 firearms have been seized.

The following cases exemplify some of the significant results achieved during the Bureau's participation in Operation Alliance throughout FY 1989:

San Diego, California. On March 19, 1989, 280 Federal, State, and local law enforcement officers participated in the arrest of 60 individuals and the execution of 20 search warrants during a roundup of Federal narcotics and firearms violators in the San Diego, California, area. This action culminated a 1-year effort by ATF, DEA, and the California Bureau of Narcotics Enforcement, known as "Crankcase," to prosecute class I methamphetamine producers and distributors.

As a result, 93 individuals were indicted, 38 of whom were ATF defendants. The majority of ATF violations consisted of 18 U.S.C. sections 922(g)(3) and 924(c). Six of the ATF subjects were in custody prior to the roundup. There are 10 ATF defendants still being sought. Eight of the subjects were members of an organization known for their suspected involvement in previously unsolved pipe bombings. In August 1988, a pipe bomb was discovered during a "Crankcase" search warrant at a clandestine lab site abandoned by the head of this organization, who was arrested in October 1988 for his suspected role in a drug rip-off/kidnapping/homicide incident. In addition, 44 firearms, 2 pipe bombs, 6 pounds of methamphetamine, $13,000 in cash, and a shotgun were seized pursuant to the searches executed during the roundup.

"Crankcase" was initiated in response to San Diego's reputation as "the methamphetamine capital of the United States." The investigation centered around the sale of glassware, equipment, and precursor chemicals at Triple Neck Scientific, a chemical supply house in San Diego well known for supplying methamphetamine lab operators. The owner/operator became a cooperating source and allowed an undercover agent to pose as a sales clerk. With the use of consensual electronic transmitters and extensive air/ground surveillance, agents were able to identify over 100 clandestine laboratories.

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Austin, Texas. During the course of an investigation into the alleged diversion of over 1,000 firearms to Mexico, ATF received information that a suspect had disposed of over 100 grenades in a pond. On July 21, 1989, ATF and members of the Explosives Ordnance Disposal Dive Team from the Austin Police Department, Austin, Texas, recovered a total of 56 grenades. Subsequently, an additional eight grenades were recovered by the investigators. This investigation was conducted in cooperation with the Austin Police Department and U.S. Customs.

Project Achilles

With the inception of the Comprehensive Crime Control Act of 1984 and subsequent amendments of 1986 and 1988, ATF initiated its Project Achilles Program, which included the armed narcotics trafficker. This legislation, which directs the mandatory sentencing of armed narcotics traffickers, gave ATF the ability to aggressively join in the Nation's war against drugs. Project Achilles is described in more detail under the Law Enforcement Armed Career Criminal Apprehension Program. It is noted here to indicate its drug-related application.

Armed Criminal Enforcement Study (ACES)

In January 1989, ATF initiated an Armed Criminal Enforcement Study (ACES) in Washington, DC. The study was conducted to identify and define the best investigative concepts for combating the violence and narcotics trafficking that currently permeate the Nation's communities. As a direct result of the success of ACES, ATF is establishing seven new Project Achilles Task Forces to be located in Chicago; Miami; Los Angeles; New York; Philadelphia; Detroit; and Washington,

DC. The task forces will be operational in March 1990, and their investigative efforts will be directed solely towards Project Achilles investigations.

Metropolitan Area Task Force

As the result of an initiative by the Director of the Office of National Drug Control Policy, the Metropolitan Area Task Force was created under the auspices of the Drug Enforcement Administration (DEA). Stemming from this initiative, nine separate groups have been established to address drug and violence problems that currently exist in Washington, DC, and the surrounding area. ATF is participating in this initiative and has dedicated four special agents who, along with DEA agents and State and local officers, comprise the "Weapons Group."

Other Drug-Related Firearms Investigations

ATF has also obtained several other notable convictions and sentences regarding the use of firearms in drug-trafficking crimes. The following demonstrate our accomplishments in this area:

Topeka, Kansas. On June 8, 1989, a defendant was sentenced to an additional two consecutive, 5-year terms for use of a firearm in a drug-trafficking crime. The investigation netted one firearm and 1 pound of methamphetamine.

Miami, Florida. On February 3, 1989, a defendant was sentenced to two consecutive, 10-year terms for use of a firearm in a drug-trafficking crime. The investigation netted 8 firearms (including a machinegun and a short-barreled shotgun), 300 cocaine rocks, 200 packets of cocaine, and 5 vehicles.

St. Paul, Minnesota. On July 7, 1989, a defendant was sentenced to an additional 5 consecutive years for use of a firearm in a drug-trafficking crime. This investigation netted four handguns, two assault rifles, an explosive device, 75 pounds of marijuana, and 1 1/2 pounds of cocaine.

Atlanta, Georgia. On February 2, 1989, a defendant was sentenced to an additional 5 consecutive years for use of a firearm in a drug-trafficking crime. This investigation netted one handgun, 1 kilo of cocaine, and 58 grams of crack cocaine.

Los Angeles, California. In September 1989, a firearms trafficker offered a quantity of heroin for sale. A buy/bust was made and the subject was arrested. Pursuant to the search of his residence, $1,000,000 worth of pure Persian heroin, $33,000 in cash, and an automobile were seized.

Orlando, Florida. In January 1989, an investigation was initiated regarding a group of Guyana nationals who were selling large quantities of cocaine while possessing firearms. The investigation resulted in the seizure of 1 kilogram of cocaine, four firearms, $11,000 in cash, and four vehicles. Eight subjects were arrested.

Springfield, Missouri. In January 1989, an investigation was initiated regarding a methamphetamine organization which manufactured multi-pounds of methamphetamine each month. The investigation netted a 100-pound methamphetamine laboratory, $19,000 in cash, 11 firearms, and 1 silencer. Three subjects were arrested.

Drug-Related Explosives Investigations

The changing criminal environment, particularly the violence associated with drugs, has added new challenges to ATF's explosives enforcement efforts. In 1989, ATF investigated 62 actual and attempted bombings that were drug-related. These incidents resulted in 11 injuries, 13 deaths, and $524,300 in property damage. ATF also made 143 explosives recoveries during drug-related explosives investigations. These figures are double those which were reported in 1988.

Provided below are recent drug-related explosives investigations:

Richardson, Texas. *On January 16, 1989, a Molotov Cocktail was thrown through the window of an apartment building. The resultant fire took the lives of four individuals. Investigators identified two suspects and determined that they had started the fire in retaliation for a drug deal that had gone awry. One suspect was convicted in December 1989. Her sentencing is pending. A retrial for the other suspect is pending.*

Davison, Michigan. *On February 7, 1989, two individuals were arrested on conspiracy and drug and bombing violations as a result of indictments handed down on January 27, 1989. The charges are the result of an investigation into the bombing of a truck on February 17, 1987. The investigation revealed that the owner of the truck was targeted because he had stolen a quantity of narcotics from members of a drug conspiracy.*

Sebring, Florida. *On April 4, 1989, an explosive device detonated inside a vehicle, killing the occupant. The victim and his son were Government witnesses in a drug conspiracy case in Ft. Myers, Florida. The trial resulted in maximum sentences for the defendants. The victim and his son were also scheduled for additional testimony at subsequent trials relating to the case. The investigation is continuing.*

Hollywood, Florida. *On September 26, 1989, an explosive device detonated inside a vehicle, injuring both occupants. One occupant was recently sentenced to 3 years in the custody of the Attorney General for his part in a narcotics operation investigated by the FBI. He is also a Government witness in an ongoing RICO narcotics case. The investigation is continuing.*

Miami, Florida. *On December 15, 1989, an explosive device detonated inside a vehicle, injuring its occupant and totally destroying the vehicle. The victim is an attorney who represents clients in narcotics cases. The investigation is ongoing.*

Detroit, Michigan. *On October 16, 1989, ATF arrested a convicted felon and known drug trafficker on charges of illegally possessing explosives. Since January 1989, ATF has investigated 11 bombings that have occurred in a neighborhood in Detroit's north side. These bombings have resulted in injuries to five individuals. Evidence recovered during these investigations link the subject to these bombings, which appear to be part of a "turf war" between narcotics trafficking organizations. The subject*

allegedly is a member of one of these organizations. A blasting cap found at the subject's residence led investigators to an individual who allegedly supplied the subject with the explosives in exchange for drugs and cash. This individual has also been arrested.

Communications

ATF is currently participating in the over-the-air rekeying (OTAR) project sponsored by the Communications Interoperability Working Group under the auspices of the Office of National Drug Control Policy. The OTAR project involves new technology for law enforcement applications and represents a major advance in secure interagency communications. The data encryption codes necessary to maintain secure radio communications will be changed by a specific radio transmission, rather than by the current practice of physically loading the code into each radio. As a result, drug law enforcement agencies will be able to coordinate their activities with secure radio traffic with very short notice.

The OTAR test project, a multi-agency effort, is scheduled for implementation in the New Orleans area in the third quarter of FY 1990.

Compliance Operations (CO) will be allocating 50 FTEs and $2.6 million in support of Congress and the President's efforts to combat illegal drug activities. These drug-related resources are part of CO's Firearms Program whose broad goals are to assist Law Enforcement's firearms initiatives and to prevent the illegal use of firearms by prohibited persons. CO's drug-related efforts, therefore, will focus on a

significant portion of these prohibited persons: career criminals engaged in illegal drug activities.

The 50 FTEs will enable CO inspectors to conduct 3,700 inspections of firearms dealers which will result in (a) inspectors making 2,100 referrals to Law Enforcement concerning illegal firearms purchases and (b) the correction of 2,400 serious violations made by firearms dealers. These inspections will be conducted in areas identified as having the greatest potential for career drug criminals purchasing firearms.

The inspections will also provide enhanced education for firearms dealers regarding: (a) which persons are prohibited from purchasing firearms; (b) a dealer's responsibility to obtain required purchaser certifications on documents; and (c) recordkeeping responsibilities to ensure prompt traces of firearms used in crimes.

MANAGEMENT EFFICIENCIES

Administrative

Efforts continue to improve productivity and efficiency and to comply with mandates from higher-level authorities.

The information systems management function was restructured during FY 1989 to achieve total system integration. This change resulted in the following organizational improvements: (1) achievement of cost savings in systems planning, acquisition, operation and management by reducing overlap between offices; (2) improved services in Bureau computer and telecommunications technology by creating

an enhanced technical resource to oversee design, development and maintenance of technology; and (3) assurance that the Bureau is planning, acquiring and using these expensive technologies efficiently and in accordance with established law. In addition, plans are underway to convert the Financial Management Information System (FMIS) to a data base system, to provide better access to financial data.

A noteworthy automation project was the recent conversion of all beverage-alcohol analyses to a computer database. Turnaround times have improved by 25 percent resulting in better service to ATF Inspectors and the Industry. The analytical data can now be used to predict trends, to identify problem products and to produce special reports required by ATF or other agencies.

In the area of cash management, a commercial credit card program in FY 1989 significantly reduced imprest fund transactions and strengthened internal controls over gasoline and small purchases. During FY 1990, we plan to explore the use of the Direct Deposit system for employee travel reimbursements and to establish a Relocation Office to better manage Permanent Change of Station (PCS) moves.

As part of our Health Improvement Program, free blood testing for cholesterol levels was provided to all interested employees during FY 1989. One health improvement effort that we are very pleased with is the 841 Wellness Center in Philadelphia, Pennsylvania. The Center is used by employees from ATF, IRS, GAO, and EPA and represents a cooperative team

effort. The cost of space rental, equipment and set-up is divided between the participating agencies with each member paying a yearly membership fee.

Much of our training efforts to improve productivity and efficiency fall into two categories: (1) preparing new employees for jobs in ATF and (2) continuing the support of management efforts to change organizational culture through the ATF management values program. The former involves classroom training for over 400 new agents, inspectors, and secretaries. A comprehensive employee orientation program will be on line by 1991 and pilot programs are now underway. The latter initiative involves, formal training for all levels of management (over 100 per year). Starting this fiscal year, ATF is moving into team building and anticipates pursuing Total Quality Management (TQM) efforts at the working level. Key Bureau managers received TQM Awareness Training in January 1990. Training in interpersonal managing skills at all levels is increasing. Study, research and task groups providing avenues to approach recruitment and retention issues and management effectiveness are underway.

With regard to mandates from higher-level authorities, the following achievements are noted:

- In June 1989, we successfully completed conversion to the Department of Agriculture Payroll/Personnel System. This new system is an integrated payroll/personnel system and has eliminated duplicated data entry and maintenance of two databases required under the previous system.

- ATF's Forensic Science Laboratory and San Francisco Laboratory Center were re-accredited for another 5 year period. To gain accreditation, the highest professional

standards for work quality and operational effectiveness must be displayed.

- Our random drug testing program became effective on January 5, 1990. Drug screening is now a condition of employment for applicants to testing-designated positions. Approximately 10 percent of employees occupying testing-designated positions will be subject to random testing each year. Supervisory training and employee awareness training on the Bureau's Drug Free Workplace began in mid-1989 and will continue.

- Regarding compliance with the Paperwork Reduction Act, total public burden hours were reduced by approximately 260,000 hours during FY 1989 and further reductions are anticipated in FY 1990.

- Private sources are used to perform in-house commercial functions in accordance with OMB Circular A-76. Examples include graphics, computer operations, employee assistance programs, guard services and consultant studies. However, further reductions in FTEs as a result of A-76 initiatives are not anticipated because the majority of the Bureau's functions are directly related to law enforcement and tax collection activities.

- The Bureau continues to comply with OMB Circular A-123, "Internal Control Systems" requirements. Forty-five reviews were scheduled in FY 1989 and 46 reviews were performed. In addition, several internal audits and management reviews are scheduled for fiscal years 1990 and 1991, including operational reviews of key Comptroller Offices. Steps have been taken to ensure that these reviews will be well coordinated and that audit findings and recommendations are promptly implemented. We also improved the Audit Resolution Monitoring System (ARMS), an automated tracking system within Financial Management Division, to initiate 60 and 120 day follow-up audits on corrective actions under Section 4 of the Federal Managers' Financial Integrity Act (FMFIA). The Bureau's Management Control Plan (MCP) was automated to meet requirements under Section 2 of FMFIA.

- Further, we began transition to the Federal Telephone System (FTS-2000) in October 1989 with completion scheduled for July 1990. The transition to FTS-2000 will be transparent to the user and it will provide a comprehensive set of secure telecommuication services, dedicated transmission services, packet switching, electronic mail and video transmission to the customer.

- o The relocation of the Bureau's Headquarters operations from the Ariel Rios Federal Building is progressing smoothly. A site has been selected at 650 Massachusetts Avenue, NW, Washington, DC., and the move is scheduled for the Fall of 1990.

The aforementioned administrative management initiatives and accomplishments enhance the base of support for the major programs in our Law Enforcement and Compliance Operations activities and result in improved Bureau operations.

Compliance Operations

Management improvements in Compliance Operations continue in the following areas:

- Using "lockboxes" and contractors to perform activities that can be performed by non-government personnel;
- Consolidating functions that can be run more efficiently at one location;
- Performing efficiently and economically activities that were previously performed by other agencies;
- Automating high-volume operations; and
- Providing equipment and training to employees so they can more effectively enforce Federal laws and regulations.

Use of the lockbox system for processing alcohol and tobacco returns and remittances has proven to be a very efficient cash management tool because tax receipts are more quickly deposited for use by the United States Government. The lockbox banks not only process returns and remittances, they also perform significant data-entry services for ATF. These lockbox services have resulted in substantial savings to ATF when compared to costs in prior years.

No serious problems have been encountered with the continued use of the lockbox arrangement for firearms and explosives license and application fees. We are saving over $100,000 a year in processing costs; and, combined with the benefits derived from licensing-section consolidations, we are able to issue firearms and explosives licenses more efficiently and expeditiously.

One lockbox bank efficiently processes taxpayments on transfers of firearms covered by the National Firearms Act. These firearms include machine guns and other weapons subject to transfer taxes. Another lockbox bank handles special occupational tax returns and payments received for hundreds of thousands of businesses.

ATF uses third-party vendors to perform several other activities related to special occupational taxes by contracting out mailing of renewal returns to more than 450,000 special occupational taxpayers, issuing stamps and mailing follow-up notices to non-filers. We determined this system to be more efficient and less expensive in terms of personnel and equipment for ATF. The use of contractors takes advantage of their available equipment and experience in handling high volume mail operations.

ATF assumed deposit and accounting responsibility for its own taxes in July 1987, and we decided to consolidate these functions in one location. The tax processing center has provided the following benefits: training of employees in new activities is improved and more efficient; equipment purchases

are kept to a minimum; interagency cooperation with IRS, FMS and others are improved; and monitoring of these important functions is made easier.

The assumption of deposit and accounting functions in 1987 gave ATF the opportunity to more efficiently monitor the collection of excise taxes for which it is responsible. Because ATF specialists in technical services are more familiar with ATF taxes and the entities which pay them, compliance matters and tax delinquencies are being resolved quickly and efficiently. This opportunity to more efficiently monitor the collection of excise taxes is being fully realized due to the tax processing center and associated automation efforts which are being integrated with technical services operations.

ATF specialists know which excise taxpayers are required to make payments twice a month. If a return and remittance are filed late or with "insufficient funds" or not filed at all, ATF specialists quickly identify these problems and initiate prompt corrective action. Quick action is often critical since a taxpayer who files late (or not at all) may be having financial problems; and we must act quickly to protect the Government's interest in any bankruptcy proceedings or tax avoidance scheme.

A substantial portion of the excise taxes collected by ATF are paid by electronic funds tranfers (EFT). Accountants in our tax processing center ensure the timely receipt of EFT paid taxes by verifying the receipt of all EFT taxpayments on

the morning following the date the twice-a-month excise taxes are due.

Congress appropriated $2.5 million in no-year funding for the purchase of a mainframe processor and associated hardware and software for special occupational and excise tax processing. This equipment will improve excise tax collection from the large number of special occupational taxpayers (estimated to be 600,000 of which 200,000 may be delinquent). The funding is also important to adequately account for over $10 billion in excise tax revenues and $200 million in refunds on claims.

ATF regulates over 287,000 firearms and explosives licensees and permittees. To handle this workload, our seven regional licensing functions were consolidated into one highly automated location. This consolidation, just now being completed, has enabled ATF to more effectively respond to inquiries from law enforcement officials and more efficiently act upon license applications. After consolidation of firearms and explosives activities, the seven technical services sections still retained responsibility for alcohol and tobacco matters. We believed there would be some savings if the number of sections were reduced. Therefore, during the past year, we have begun to consolidate the technical services sections into five sections.

ATF is in the fourth year of an agreement with the U.S. Customs Service whereby ATF inspectors perform examinations at customs bonded warehouses handling alcohol only. The

agreement, which was initiated at the direction of Congress, has benefitted all affected parties. It improves the overall efficiency of the Bureau and provides us with another tool for protecting excise taxes and ensuring public safety. Industry benefits because its representatives deal with only one agency on field inspection matters. The U.S. Customs Service benefits because ATF officers, using their knowledge of the alcoholic beverage industry, have detected violations and tax deficiencies at these facilities, while freeing up Customs resources to perform other vital services.

ATF processes tens of thousands of requests each year for alcohol beverage label approvals. By statute, we also maintain detailed records concerning fully automatic and certain other weapons covered under the National Firearms Act. In these two areas, we have automated our files so that the records are more efficiently maintained and information more accessible.

The automation of our label approval files has been particularly advantageous to both industry and ATF because requests for label approval are processed twice as quickly as in the past. Industry representatives and members of the public benefit because they now have speedy and accurate access to our label approval files. If there is a question of product integrity, labels can be researched quickly to ascertain which industry members distribute these products. Affected inventory can then be removed from shelves to protect public safety.

ATF continues to upgrade the skills of its tax specialists and other employees by providing them with modern equipment and advanced training. Office computers and software materials have been obtained for all regional and area offices and upgrades and additional equipment will be provided as required. ATF has provided its auditors with laptop computers to enable them to better assist Law Enforcement special agents during arson investigations, and for use in excise tax examinations. ATF continues to provide advanced training to all field officers in areas such as: white collar crime; spreadsheet and database use (ADP); advanced examination techniques; interview techniques; expert-witness testimony; and management courses.

Law Enforcement

Management improvements in the area of Law Enforcement include the establishment of a new division to provide more efficient and effective supervision and control of our digital, radio, and voice communications; and the implementation of the Armed Criminal Enforcement Study (ACES) (discussed under the Drug Enforcement Effort section) to determine the most effective utilization of resources in combating violent, narcotics-related crime.

One of the critical factors that will determine ATF's law enforcement success in concentrating on those crimes, criminals, or criminal organizations that pose a great threat to society is the ability to deal effectively with the huge quantity of information that must be acquired, processed, and

made available to those who need to take timely action. From the information collected and analyzed, ATF derives detailed insights that permit the Bureau to better focus its special agents and other limited resources at the points and times they are likely to be the most effective.

A critical factor in successful information support is the ability to integrate data from diverse sources and make it available to a broad range of users at a moment's notice.

ATF is presently in the process of connecting all law enforcement offices by local area networks (LAN's) which will provide an integrated automated office system; expanded access to present ATF applications; and connectivity through the Treasury Enforcement Communications System (TECS), National Crime Information Center (NCIC), National Law Enforcement Telecommunications Systems (NLETS), and State and local law enforcement agencies. To accomplish this, ATF is working toward acquiring a new, enhanced mainframe; expanded LAN capacity; technical support; application design and development; and additional microcomputer hardware and peripherals.

To establish a Law Enforcement network, ATF has issued a contract with an 8A firm to install LAN's in all of the 22 district offices throughout the United States. Implementation will be accomplished over the next 2 years.

In FY 1990, ATF will install 15 LAN's and integrate them through the Consolidated Data Network with the ATF mainframe, TECS mainframe, NCIC, NLETS, and WANG computer system. This

will provide ATF with an integrated network that will enable the Bureau to access multiple hosts through a single network. In addition, new applications are being designed and developed to enable ATF to place many of its manual functions on computers. This will provide ATF with on-line, interactive data entry and retrieval, user-friendly querying and report generation, and statistical and analytical capabilities--all in a modern, integrated, concurrently accessible computer system.

In our effort to ensure efficient and effective service to the ATF Law Enforcement community, we continue to enhance applications related to TECS expansion, firearms tracing, and the Law Enforcement Management Information System (LEMIS). The Bureau has also formed the Special Agent in Charge Automation Committee to review present manual applications and forms to determine which functions should be automated and recommend the priority for the development of these new applications.

ATF has recognized the enormous task ahead in the area of information systems, voice, and radio communications support, and the importance of these support functions in ATF's effort to combat violent criminal activity and to ensure the safety of ATF special agents. Based on the task ahead, the Office of Law Enforcement has established a new division, the Systems and Records Division. Included within this division are the Systems Support Branch and the Communications Branch. This reorganization, which brought these functions under the

supervision of one division solely committed to digital, radio, and voice communications, will ensure dedicated, efficient, and cost-effective support to field operations.

Uniform Crime Reporting (UCR)
National Incident-Based Reporting System (NIBRS)

During FY 1990, all Federal law enforcement agencies must develop an incident-based reporting system in compliance with Section 7332 of the Uniform Federal Crime Reporting Act of 1988, P.L. 100-690, enacted October 14, 1988. Since ATF presently uses a case-based reporting system, LEMIS, conversion to an incident-based system will require a revision of the present LEMIS application. Representatives from ATF are working with the Federal Bureau of Investigation in our effort to develop the required reporting system in compliance with the congressional mandate.

LEGISLATIVE CHANGES

The Budget Reconciliation Act of 1989, P.L. 101-239, contained statutory amendments which will permit ATF to assume responsibility from the Internal Revenue Service (IRS) for firearms and ammunition excise taxes. We have been working with IRS on this transfer of responsibility for some months, and the change in law will allow ATF to receive payments for these excise taxes.

The transfer of firearms and ammunition excise taxes to ATF will result in more efficient government operations because ATF already has years of experience and frequent contact with these businesses as part of its established

inspection and licensing programs. The transfer is scheduled to take place by January 1, 1991.

Title VIII of the Anti-Drug Abuse Act of 1988, Public Law 100-690, amended the Federal Alcohol Administration Act by requiring warning labels concerning the health hazards associated with the consumption or abuse of alcoholic beverages. This law was implemented on November 18, 1989, and warning labels are now required to be located in a conspicuous and prominent place on containers of alcohol beverages.

The Undetectable Firearms Act of 1988, P.L. 100-649, requires that the Departments of the Treasury, Transportation, and Justice conduct studies to identify state-of-the-art equipment capable of detecting a security threat exemplar (weapon) and capable of distinguishing it from ordinary metal objects carried on one's person. The main objective of the Act is to provide a minimum Federal standard for the detectability of firearms by walk-through metal detectors and cabinet x-ray systems. Firearms that are as detectable as the exemplar would be lawful to manufacture for commercial sale. Those that are not detectable could only be produced or imported for use by the United States military or intelligence agencies.

The Act requires that the Secretary of the Treasury develop a security exemplar of 3.7 ounces of PH-17 stainless steel resembling a handgun. The Bureau is in the final stages of completing the development of the exemplar.

COMPLIANCE OPERATIONS PROGRAMS

ATF regulates several industries which market products that are sensitive in nature and subject to continued public interest. Our philosophy has been to regulate only in those areas which need to be regulated and to the extent necessary to achieve the intent of law. A balance is sought between effective administration of statutory requirements, the legitimate needs of industries under ATF's jurisdiction and the protection of the public.

The Bureau is extremely selective in setting goals to assure effective resource utilization. Compliance Operations field offices continually assess and report on the compliance climate in their geographical jurisdictions. Field supervisors continually consult with their Law Enforcement counterparts to discuss problems of mutual concern and to identify specific target areas so that ATF's Law Enforcement mission is fully supported. Field inspections are then concentrated in those areas which cause the most jeopardy to revenue collection or which pose the greatest threat to public safety. Throughout the year, and especially at its conclusion, we analyze the progress made in our field programs, make necessary revisions and identify new targets for the following year.

In addition to our regulation and field programs, we have adopted several other initiatives to increase compliance levels. We are improving the productivity of our employees by providing advanced training and by automating various

activities in our offices. In all program areas, we conduct educational seminars which involve the active participation of industry members and state agencies. These seminars are creating an atmosphere in which our requirements are better understood and more likely to ensure compliance by all industry segments.

CO ALCOHOL PROGRAM

The Bureau's alcohol compliance program is responsible for: preventing entry of criminals or other prohibited persons into the industry through a qualification program; ensuring collection of alcohol beverage excise taxes through field examinations and office reviews; protecting public safety by ensuring the integrity of alcoholic beverage products; and providing an orderly marketplace so producers, distributors and consumers can trade freely.

This program will be reduced by 51 FTE positions and $3,900,000 in FY 1991. This reduction is based on cost savings that will occur by conducting 700 fewer inspections in the areas of qualification, trade practices, and product integrity; and restructuring the SOT tax system. The SOT proposal will offer a more efficient collection system. In addition, the Administration is attempting to focus alcohol compliance on high priority activities. As a result, the proposed reduction is further based on better targeting of investigative resources and a more self-regulating industry, since it is expected that important problems will be reported and follow-up provided only for high probability violations.

Qualification

ATF is responsible for keeping prohibited and unqualified persons out of the alcohol beverage industry. The qualification process also keeps out those persons who may attempt to launder money obtained from illicit activities.

We achieve our goals in this activity in two ways. First, under our qualification process, permits are issued only to those individuals who have the necessary business experience, are not statutorily prohibited and are likely to comply with statutory requirements. Second, ATF ensures that entities already qualified and possessing permits remain in compliance by conducting highly selective investigations to determine that no hidden ownership or illegal funding has occurred. Following are examples which show the need for maintaining our stringent qualification process.

Inspectors investigated a wholesaler/importer for suspected hidden ownership. When the owner did not respond to our repeated inquiries, the permits were revoked and referrals were made to LE, Customs and IRS. IRS recently informed us that the ATF information led to the owner pleading guilty to laundering $1.4 million through a bank.

The majority stockholder of a wholesaler/importer was arrested by the FBI for organized crime activities. He and others were accused of running a crime network that dealt in cocaine, counterfeiting, loan sharking, money laundering, extortion, fraud, arson, and murder.

Tax Compliance

ATF collected $129 million in special occupational taxes (SOT) in FY 1989. ATF estimates there are 200,000 businesses which owe delinquent special taxes. We have been building our delinquency program over the past several years, with the

result that $2 million in delinquent SOT was collected in FY 1987, $6 million in FY 1988 and $36 million in FY 1989. Some of the delinquent SOT collections made in FY 1989 include the following:

In FY 1989, our Western Region collected $12 million in delinquent SOT. This success was due to the work of many employees in the region, especially those working in area offices. The Los Angeles Area Office collected $500,000 during the year, the Sacramento Area Office $1.1 million and the Santa Rosa Area Office $1.8 million.

There were a number of large individual collections of SOT. For example, as a result of our Southeast Region's delinquent SOT program, an airline paid $37,000 in taxes, penalties and interest.

Historically, ATF has encouraged the alcohol industry to pay the proper amount of excise taxes through a strong revenue examination program. In FY 1989, ATF collected $5.7 billion in alcohol excise taxes. The current high rate of excise tax compliance is directly related to this enforcement effort. ATF can expect future compliance to be only as good as the examination, verification and enforcement process.

During FY 1989, the Bureau accepted 32 offers in compromise, amounting to $241,000, for revenue-related violations. Inspectors conducted over 10,095 examinations resulting in: the correction of 1,221 violations; numerous referrals to other agencies; and a total of $4.5 million in increasing tax adjustments. The following are some examples of these findings.

Two separate audits of Customs Bonded Warehouses had the following results: the first inspection disclosed that there were $718,000 in liquidated damages; and, as a result of the second inspection, Customs assessed the importer $11,000.

Inspectors verified a distiller's inventory and found a considerable shortage of products on which the tax was not paid. The distiller paid $51,000 to cover these inventory shortages.

Information obtained by inspectors during an inspection disclosed possible underpayment of state taxes. The State of Tennessee recently informed us that our information led them to collect $250,000 in taxes from a wholesaler.

In support of examinations conducted at the premises of revenue producing plants, specialists in ATF regional offices review tax returns and other documents submitted by revenue producers. These office reviews are an important part of ensuring that excise taxes are collected and that proper payments of claims are made.

ATF constantly strives to maintain an effective taxpayment compliance program. The examination skills of inspectors have been increased by an active training program and by management insistence upon high standards. Training, such as Advanced Examination Techniques, is being given to field employees so that they are better able to detect taxpayment deficiencies. To support field operations, ATF has professional auditors who are called on to assist with the most complex and sophisticated taxpayers, and who serve as a technical resource for other segments of the Bureau.

Alcohol Product Integrity

Product integrity matters have demanded considerable Compliance Operations attention throughout the 1980's. The Bureau has had to deal with several instances in which imported products were contaminated with hazardous

ingredients. Foreign wines were found to contain the hazardous substance diethylene glycol (DEG) in 1986. As a result of ATF's sampling and product-removal efforts, millions of wine bottles contaminated with DEG were recalled from the market over a three-year period and destroyed or returned to the foreign producers. More recently, imported brandies were contaminated with methanol and also were removed from the market.

In the past year and a half, there have been widespread attempts at label fraud. In some instances, importers have been found to use fraudulent labels to bring products into the U.S. and to understate the tax class of beverage alcohol products. These activities deceive the public and result in a fraudulent evasion of excise taxes.

Grape growers have misrepresented cheaper grapes as more expensive varietal grapes in high demand. Many wineries may be unaware of grape growers' illegal actions; but we have found some wineries who knowingly used the cheaper, non-varietal grapes. The public is deceived by these actions when it purchases expensive wine labeled as being produced from expensive varietal grapes, when in fact, the winery fraudulently used cheaper, non-varietal grapes.

We enhanced the already existing market sampling program by obtaining additional laboratory equipment and increasing sampling schedules. We have also created a Bureau Contamination Response Team to monitor each contamination incident and coordinate our response.

Field examinations, sampling programs and other ATF efforts have disclosed that hazardous ingredients are still being introduced into alcohol beverages. For example, although we have in the past tested for the presence of lead in alcohol beverages, we are now working with the Food and Drug Administration to develop a new, more comprehensive lead-testing program. Also, ATF employees continue to find significant instances of label problems by which the public is deceived about the contents of alcohol beverages. The following are some examples of these problems.

An importer was investigated by CO, LE and Customs for serious label-fraud violations. The joint investigation was successfully concluded with conviction and jail sentence of the responsible parties, a fine of $100,000 and revocation of the company's permits.

CO inspectors and agents from two states are investigating an importer and a retailer for selling wine and beer products that do not have label approvals.

A Chicago importer received an 11-day permit suspension for altering labels and importing products without certificates of label approval.

A grape grower has admitted that he used weigh tags falsely indicating that the product was Zinfindel grapes when, in fact, the grapes were actually a cheaper variety. A winery knowingly took advantage of this misrepresentation and "saved" $75,000 by using the falsified weigh tags.

Inspectors determined that a winery falsified records and attempted to substitute cheaper grapes for the Zinfindel variety. $45,000 would have been saved by the winery in this attempt to deceive the public. ATF is taking strong corrective action to protect the public interest.

Inspectors found that a large importer had brought in 83,000 bottles of wine which did not show the required sulfite warning statement. The importer has initiated action to properly label the wine.

An importer, which we reported last year as having hundreds of thousands of dollars in liquidated damages,

was also found by an inspector to be using falsified COLA's. Customs and the local U.S. Attorney's office are actively involved with ATF inspectors and agents in this investigation.

In a one-week period, headquarters specialists rejected label-approval requests from three wineries because their labels made therapeutic claims.

International Actions

Because of ATF's expertise in the field of domestic and foreign law as it applies to beverage alcohol products, ATF is increasingly being requested to support U.S. Government efforts to minimize or eliminate international barriers impeding U.S. export trade in wine, distilled spirits and malt beverages. For example, ATF is continuing to play a major role arising from the September 1988 United States - European Economic Community technical consultations on beverage alcohol products. ATF's participation in these international activities also aids in the handling of contaminated imported products.

ATF is continuing to provide substantial technical data to the Office of the U.S. Trade Representative in its undertakings with respect to the Wine Equity and Export Expansion Act of 1984. To date, this data has made a significant contribution toward facilitating wine export trade to Japan, Canada, Taiwan, South Korea, and the Caribbean area.

Market Integrity

To enforce the trade practice provisions of the Federal Alcohol Administration Act, ATF aggressively investigates allegations of significant violations in order to maintain an

open marketplace. Our efforts are concentrated on those industry members engaged in illegal interstate activities leaving the less complex, intrastate violations for State agencies to resolve. An indication of the success of this approach during FY 1989 is that 33 cases were resolved and offers in compromise totalling $307,000 were accepted. In addition, permits of two industry members were suspended for a total of 20 days for trade practice violations.

For the past few years, we have held trade practice seminars throughout the country. The purpose of these seminars has been to increase the cooperation between ATF and State agencies and to increase the level of compliance by industry members. The seminars held last year were very well received by both industry and State agencies.

CO TOBACCO PROGRAM

In FY 1989, $4.3 billion in tobacco excise taxes were collected. ATF's tobacco compliance program is similar to the qualification and revenue protection aspects of our alcohol program. Applicants for permits are screened and qualification inspections are conducted to ensure that only eligible persons, likely to comply with regulations, enter the industry. The following examples demonstrate the need to continue with our qualification efforts.

An inspector determined that a cigar manufacturer had understated the proper wholesale price of cigars removed for sale. This finding resulted the collection of additional taxes, penalties and interest of $108,000.

A smokeless-tobacco manufacturer was found to have filed a late tax return. ATF accepted an offer of $10,000 to compromise the penalties for this late taxpayment.

CO FIREARMS PROGRAM

The Bureau's firearms program is based upon the Gun Control Act of 1968 (as amended), Public Law 99-308 of 1986, and other statutes. Licenses are required to manufacture, import and sell firearms. The intent of the statutes, and our qualification efforts, is to prevent statutorily prohibited persons from obtaining licenses. In FY 1989, our regional offices and the Firearms and Explosive Licensing Center processed the following license actions: revocation of 12 licenses, denial of 49 applications, and withdrawal or abandonment of 2,188 licenses.

A very important aspect of our firearms program is the support given to ATF special agents in their efforts to apprehend criminals and assist other law enforcement agencies. For this reason, inspectors frequently and increasingly work with special agents in identifying criminals who purchase firearms and in investigating licensees who criminally misuse their license.

Inspectors also conduct compliance inspections of licensees previously identified as likely to violate provisions of firearms statutes. These inspections prevent firearms dealers from making sales to prohibited persons and ensure that a dealer's records are sufficient to trace the flow of firearms used in crime. These inspections also

closely examine transactions involving certain types of firearms which have been identified as "weapons of choice" and are likely to be used by career criminals and persons involved in illegal drug activities.

During FY 1989, over 9,600 inspections were conducted. They resulted in licensees being cited for 4,731 serious violations and 4,227 referrals were made to law enforcement agencies. Some examples of these field activities include the following.

An inspector conducted a compliance inspection which, after records and inventory analyses, resulted in 86 referrals to LE for purchases of firearms by prohibited persons. One of the purchasers, recently arrested, was an identified drug trafficker who had two violent-felony convictions. Further records review showed additional prohibited purchases by the drug trafficker. The illegal firearms purchases by this trafficker will add to any sentence he receives.

The Cleveland Area Office has had a significant number of successful referrals. Referrals have led to: criminal investigations of Federal firearms licensees; numerous cases being opened by LE to investigate purchases by convicted felons; and referral information being tied in with an associate of a known PLO terrorist. Of 75 referrals made by this office, about one-half will result in Federal or State prosecution.

Many CO offices participate in local LE task forces. Some of these include: a task force investigating illegal exports to the Philippines; Project Achilles; and the Minneapolis Weapons Task Force. Inspectors have participated in the latter for some time; and, in one six month period, their inspections have resulted in 216 referrals to LE, 64 "hits" for either purchases by prohibited persons or sales of stolen firearms, numerous cases being initiated, and several firearms dealers surrendering their licenses due to the violations which were found.

An inspector conducted a qualification inspection and found that the husband of the applicant was a convicted felon. The inspector determined that the husband was a hidden owner and made a referral to LE. This led to the arrest of the individual by LE and local authorities,

along with confiscation of 20 firearms and merchandise found to have come from four burglaries.

The Firearms and Explosives Licensing Center is responsible for processing firearms license applications and for maintaining the Bureau's licensee files. At the end of FY 1989, there were 264,247 firearms licensees. Compliance Operations offices processed 89,210 applications, of which 34,318 were first-time applicants and 54,892 were renewals.

ATF is also responsible for enforcing the registration and revenue provisions of the National Firearms Act (NFA), a statute which regulates machineguns and types of weapons commonly used by drug dealers and organized crime groups. The Bureau has automated its NFA registration files to handle registration information on hundreds of thousands of NFA firearms and to act more quickly upon requests for information from law enforcement agencies.

As in other programs, the Bureau uses seminars for firearms licensees as a means of improving their understanding of and compliance with Federal laws. State officials are actively involved with ATF in conducting these seminars. In FY 1989, over 5,900 firearms licensees attended 77 seminars.

CO EXPLOSIVES PROGRAM

ATF's explosives program ensures that licenses and permits are issued only to eligible persons, that records are maintained in order to permit traces of explosives used illegally and that explosive materials are stored safely and securely. Licensing Center personnel review all applications

for accuracy and initiate criminal records checks to prevent prohibited persons from receiving a license or permit. Inspectors examine explosives storage facilities before license or permit issuance to make sure that the facilities meet stringent Federal requirements.

After a person is issued an explosives license or permit, ATF inspectors conduct periodic compliance inspections. These inspections ensure that the storage facilities continue to meet ATF safety and anti-theft requirements, and that sufficient records are maintained to enable law enforcement officers to trace the movement of explosive materials. Auditors also assist LE agents in arson investigations. Examples of explosives inspections and arson investigation assistance include:

Inspectors, accompanied by Department of Transportation investigators, conducted a compliance inspection of a large explosives manufacturer, distributor and user. Examination of the premises and records determined that: two trucks, containing 26,000 pounds of explosives, were left unattended overnight with the keys in the ignition or ashtray; additional unattended, overnight storage in trucks with keys was found at a remote storage site; the valve on a liquid-explosives tank was unlocked; and out-of-state sales were made to non-licensees. Inspectors initiated corrective action; and revocation of the license has been initiated.

Three inspectors conducted a compliance inspection of a large licensee. The inspection found 11 serious violations, the most significant involving storage of explosives too close to residences. About 610,000 pounds of explosives were found to be on hand, of which 430,000 pounds had to be removed to meet table of distance requirements. Inspectors took immediate corrective action and conducted follow-up visits to ensure that the explosives had been removed to proper storage facilities.

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LAW ENFORCEMENT PROGRAMS

ATF's Law Enforcement efforts concentrate on those crimes, criminals, or criminal organizations which pose a great threat to American society. Accordingly, ATF has developed and continues to maintain, excellent working relationships with State and local law enforcement officials. Our programs are prioritized and are continually revamped to ensure that we are addressing the most serious criminal threats as perceived by the entire law enforcement community. In FY 1990, Law Enforcement will commit its resources to the investigation of narcotics trafficking, terrorism, arson-for-profit, bombings, and other crimes of violence.

In FY 1988, Law Enforcement focused on apprehending previously convicted felons who perpetuate violence by illegally using firearms. These criminals are singularly responsible for more violent crimes than any other group, and their presence affects the way citizens live and businesses operate. In FY 1991, ATF will continue to identify these criminals, vigorously investigate their crimes, and complete criminal cases for prosecution.

The Bureau is also acutely aware of the alarming increase in domestic and international terrorist/hate groups in the United States. As a result, ATF special agents have initiated numerous investigations concerning the violent misuse of firearms and explosives by these groups. ATF's identification and exposure of these groups continues to heighten national awareness of their violent acts.

ATF is also committed to investigating and exposing corrupt profiteers who knowingly and willfully traffic in firearms, ammunition, and explosives to profit from all types of criminal activities.

Unscrupulous property owners who hire arsonists to burn their buildings for insurance monies have also been identified for intense investigation. Federal arson statutes include severe penalties in cases where death or injury occurs as a result of these fires. ATF's enforcement efforts under these statutes will be paramount.

LE ALCOHOL PROGRAM

The alcohol industry provides a multibillion dollar tax revenue source to Federal, State, and local governments. Because of the tremendous amount of funds generated by this industry, it has historically been susceptible to organized or white collar criminal activity. The Bureau's efforts are directed toward protecting this revenue source from individuals who have demonstrated a disregard for the law. Despite comprehensive efforts, a small number of criminals continue to infiltrate the industry and attempt to defraud the Government through the evasion of excise taxes.

ATF has conducted investigations during recent years which have disclosed illegal payoffs, kickbacks, commercial bribery, hidden ownership, and other violations of the Federal Alcohol Administration (FAA) Act and the Internal Revenue Code (IRC). Additionally, ATF has conducted investigations and assisted State agencies in investigations pertaining to the

illegal production of alcohol or moonshine. This activity has subsided considerably due to economic factors and effective enforcement efforts. During FY 1989, ATF initiated 25 alcohol-related investigations and recommended 6 defendants for prosecution.

LE TOBACCO PROGRAM

Public Law 95-575 was enacted on November 2, 1978, to eliminate racketeering in the sale and distribution of cigarettes. The Advisory Commission on Intergovernmental Relations conducted a study in 1975 and another in 1984 into the contraband cigarette problem. The Commission concluded that since the enactment of Public Law 95-575, the tax loss has dropped from 10 percent to 5.4 percent of the total revenue due States from their cigarette taxes.

The majority of the 5.4 percent is from activities outside the purview of the Contraband Cigarette Act. These include small bootlegging activities associated with military bases and Indian reservations.

ATF views contraband cigarette enforcement as primarily a State problem requiring a State solution. We see our role as coordinating intelligence collection and giving investigative assistance where jurisdictional limits of a particular State have been exceeded, and to provide investigative training and laboratory support to State and local agencies as needed.

In furtherance of our objectives in this program, we have initiated a program of collecting intelligence on contraband cigarette trafficking from source States, and then providing

that intelligence to the affected State agencies for their enforcement efforts.

We have continued to conduct training in contraband cigarette enforcement for State and local officials. This training serves to enhance the abilities of States to effectively address the contraband cigarette problem. The Bureau also assists States in an advisory capacity and makes ATF laboratory expertise in the detection of counterfeit tax indices available to them. Consequently, impacted States have developed enforcement capabilities to address current problems. However, ATF will continue to provide this assistance to States where Federal and State interests coincide.

LE FIREARMS PROGRAMS

In FY 1989, ATF continued to place greater emphasis on those persons and groups identified as being actively involved in drug trafficking and violent criminal activities. Included within the Firearms Program are criminal trafficking, technical assistance, restoration of firearms privileges, international traffic-in-arms (ITAR), and the armed career criminal apprehension program. In FY 1989, ATF initiated 8,286 firearms-related investigations and recommended 6,669 defendants for prosecution.

Criminal Trafficking

One of the major categories of the Firearms Program concerns criminal trafficking in all types of firearms. This

area can be summarized as the identification, investigation, and apprehension of individuals or groups who are substantial sources of firearms for the criminal element, and who demonstrate a flagrant disregard for the law. Included are those who illegally deal in stolen firearms; are involved with burglary and fencing operations; and illegally traffic, manufacture, or convert machineguns and silencers. The following are some of our accomplishments in this area:

Buffalo, New York. In March 1989, a joint investigation was initiated with U.S. Army authorities of a group of soldiers and officers of the National Guard who stole hundreds of thousands of dollars in military weapons parts over a period of several years. These individuals (several were licensed Federal firearms dealers) assembled rebuilt weapons using non-military parts and sold the firearms. Many of the firearms were converted to fully automatic weapons. Some of the firearms have been recovered in foreign countries, others were found at a paramilitary camp, and one was recovered during the arrest of a narcotics trafficker. Two defendants have pled guilty and are currently awaiting sentencing.

Detroit, Michigan. In March 1989, an investigation was initiated regarding a Federal firearms licensee who diverted hundreds of firearms to the criminal element through various schemes including falsification of his records, strawman purchases, and reports of firearm thefts. The firearms were then used in various crimes, including murder and the facilitation of narcotics trafficking. The suspect has been indicted and is scheduled to stand trial in the near future.

Atlanta, Georgia. In February 1989, a significant firearms trafficking investigation was concluded. The investigation disclosed that four Federal firearms licensees and an unlicensed firearms trafficker conspired to illegally sell firearms throughout the United States. The firearms dealers established a false set of firearms records to conceal this illegal activity. One of the defendants admitted to diverting over 550 firearms in this matter. Several of the firearms have been recovered at crime scenes. The defendants are currently awaiting trial.

Portland, Oregon. In December 1989, an illegal firearms trafficking investigation was concluded with the

conviction of three defendants. The investigation disclosed that a Federal firearms licensee illegally transferred 469 firearms to two unlicensed firearms traffickers. The traffickers subsequently sold the firearms at gun shows and flea markets in Washington and Oregon.

New York, New York. In March 1989, a firearms trafficking investigation was concluded with the arrest of two suspects. The investigation disclosed that a corrections officer had several individuals, using false identification, purchase firearms from out-of-State firearms dealers. The firearms were then sold by the corrections officer to narcotics traffickers in the New York metropolitan area. ATF agents made undercover purchases of 16 handguns and a silencer from the suspect. Following his arrest, the subject admitted to the illegal sale of approximately 800 firearms.

Technical Assistance

Technical assistance involves testing and evaluating firearms, ammunition, and implements of war for proper classification under Federal law; and advising State, local, and other Federal agencies on the technical aspects of firearms. ATF also traces firearms to assist Federal, State, and local law enforcement authorities in their fight against crime and violence. In FY 1989, ATF processed 41,807 requests for firearms traces from various law enforcement agencies. Of that total, approximately 82 percent of the traces were conducted on behalf of State and local law enforcement agencies, who used the trace results as investigative leads to help solve a variety of criminal violations. The following are some examples of our recent traces:

Tucson, Arizona. On September 5, 1989, the Pima County Sheriff's Office requested an urgent trace on a firearm used in a double homicide of an elderly couple. The trace results were back in 24 hours. The trace revealed that the last retail purchaser lived across the street from where the couple had been murdered and, a few days

before, had reported a burglary at his residence in which the firearm was stolen. It was determined that an escapee from State prison had committed the burglary. At the time, this was the only lead the sheriff's office had linking the suspect to the murders. A warrant charging him with murder was issued, and he was apprehended in El Paso, Texas. He admitted to the double homicide.

Greenwich Township, New Jersey. On August 22, 1989, after making a routine traffic stop, a New Jersey State Trooper was shot. The trooper sustained seven shots, four of which penetrated his body in the lower neck, right hand, lower back, and above the knee; and three of which were fatal shots, but were survived by the trooper because he was wearing his bulletproof vest. The suspects fled the scene in the trooper's marked vehicle. The suspects were subsequently apprehended, and an Exam, 9mm semiautomatic pistol and a Mac II were found in their possession, along with 309 vials of crack cocaine. An urgent trace revealed that the firearms were purchased in Dallas, Texas, on July 21, 1989, by a relative of one of the suspects. The suspects are members of the Shower posse and may be responsible for robberies and homicides in New York and Annapolis, Maryland.

Detroit, Michigan. On April 28, 1989, a Federal search warrant was served on the residence of the mother of a slain narcotics kingpin. Seized pursuant to the warrant were the residence, three automobiles, and eight firearms. Two of the firearms had obliterated serial numbers. ATF Headquarters laboratory restored one of the numbers, and the firearm was traced to a Detroit Federal licensee. The licensee is known for drilling out the serial numbers and selling them without proper documentation. Several firearms seized in narcotics-related crimes have been traced to the Federal firearms licensee.

Restoration of Firearms Privileges

This area of the Firearms Program involves investigating applications for the restoration of firearms privileges. During FY 1989, ATF completed 1,026 investigations of these applications. Of those requiring a final decision by ATF, the Bureau restored firearms privileges to 318 qualified applicants and denied 216 applications.

International Traffic-In-Arms

International traffic-in-arms (ITAR) involves the illicit movement of firearms into and out of the United States, which is a growing problem of worldwide concern. The Bureau is dedicated to maintaining an aggressive commitment towards neutralizing the illicit movement of firearms. Firearms of U.S. origin are used in violent crimes throughout the world and are often found in the hands of terrorists and narcotics traffickers. Liaison with foreign governments proves useful to our enforcement efforts and provides us with valuable data relating to the movement of firearms in and out of the United States. In FY 1989, ATF participated in and conducted seminars for the Department of State Anti-Terrorism Assistance Program in Lima, Peru and Quito, Ecuador. Several other countries are expected to be scheduled for seminars in calendar year 1990.

In FY 1989, ATF conducted major investigations directed towards the illegal exportation of firearms from the United States into Colombia and the Philippines. Typically, the strawman method is employed by the purchaser to cover the real identity of the person to receive the firearms.

ATF recently detailed two special agents to Bogota, Colombia, for 30 days. The purpose of the detail was to assess the extent to which American firearms are being used in crimes of violence in Colombia and to instruct Colombian police and military officials on the proper procedure for requesting traces of recovered weapons.

Based on our analysis of information gathered during this assignment, we believe that a great many firearms are ending up in the narcotics trafficking trade and terrorist activities.

To effectively impact on this activity, it is of prime importance to have accurate and up-to-date intelligence. To obtain this, ATF must maintain close liaison with Colombian law enforcement officials and with U.S. agencies operating in Colombia.

To accomplish these worthwhile goals, ATF has requested a permanent presence in Colombia with the assignment of one special agent. In addition to gathering intelligence on firearms trafficking activities, the agent will be responsible for providing firearms and explosives technological assistance and training to Colombian law enforcement officials.

The following are examples of our accomplishments under the ITAR program:

Tampa, Florida. In November 1988, ATF initiated an investigation regarding a Federal firearms licensee who was selling firearms to Colombian nationals who, in turn, were smuggling the weapons from the United States into Colombia. The firearms were being sold to a Colombian drug cartel. To date, four suspects have been identified, and 157 firearms have been documented as being smuggled into Colombia.

San Francisco, California. In April 1989, ATF identified a Federal firearms licensee who, during a 2-month period, sold 258 handguns to the same individual. The investigation disclosed that the suspect used several other individuals to smuggle the firearms into the Philippines in boxes containing auto parts. Philippine authorities have seized 70 of the handguns in Manila.

Los Angeles, California. In September 1989, ATF initiated an investigation into the illegal exportation of firearms from the United States into the Philippines.

The investigation disclosed the smuggling of approximately 800 firearms by two citizens of the Philippines. ATF is working closely with Philippine authorities to stop this illegal flow of firearms into the Philippines. As a result of this investigation, Philippine police officials have seized 314 firearms.

New York, New York. ATF identified an illegal firearms trafficker who was using strawman purchasers in the New York metropolitan area to purchase firearms for him. The suspect smuggled the firearms into the Dominican Republic secreted inside air conditioner compressors. Dominican Republic authorities have already seized 150 firearms.

During FY 1989, ATF completed 83 criminal cases with 205 individuals involved in the illicit international trafficking in firearms.

Armed Career Criminal Apprehension Program

Law Enforcement's historical confrontation with armed criminals, accompanied by the growing volume of illicit narcotics trafficking in the United States, has markedly increased the frequency of encountering the violence-prone offender and armed career criminal. To assist law enforcement in the battle against the armed career criminal and those who use firearms in furtherance of their illicit narcotics trafficking, the Armed Career Criminal Act, the Comprehensive Crime Control Act of 1984, and amendments in 1986 to the Federal firearms laws were enacted.

The enactment of 18 U.S.C. 924(e) in 1984 as part of the Armed Career Criminal Act provided a penalty enhancement provision of the already existing statute 18 U.S.C. Appendix 1202(a)(1), possession of a firearm by a convicted felon. This section was later recertified under 18 U.S.C. 922(g). As

originally passed, the statute provided for a mandatory enhanced penalty of at least 15 years in prison for those persons convicted of possessing a firearm after having been convicted of three robberies or burglaries. The statute also specifically excluded reduction of the sentence by suspension and the granting of probation or parole.

As part of the Comprehensive Crime Control Act of 1984, 18 U.S.C. 924(c) was amended to require a mandatory sentence for a person convicted of using or carrying a firearm during and in relation to a Federal crime of violence. The amended statue mandated a 5-year prison sentence for the first conviction and 10-year sentences for the second and subsequent convictions. Probation, suspended sentences, concurrent sentences, and parole were all prohibited under the amended law. In 1988, Congress, recognizing the need for stronger firearms laws, amended 18 U.S.C. 924(c) and (e). These amendments mandated harsher sentences for those persons convicted of 924(c) violations and broadened the scope of 924(e) to include as a predicate offense any act of juvenile delinquency involving the use or carrying of a firearm, knife, or destructive device that would be punishable for a term exceeding 1 year if committed by an adult.

These sweeping amendments to the Federal firearms laws placed ATF at the forefront of the Nation's war against illicit narcotics trafficking. The Bureau took the initiative by establishing armed career criminal task forces in several target cities. The various investigative strategies utilized

by these task forces were extremely effective in combating the armed narcotics trafficker and repeat offenders. As a result of our success in using task forces, a national project entitled "Achilles" was instituted in FY 1987. Project Achilles was so named because the illegal possession of a firearm frequently is the Achilles' heel of the violent career criminal. The project is directed at targeting, investigating, and prosecuting those individuals who qualify for mandatory and enhanced sentencing under 18 U.S.C. 924(c) and (e).

Currently, all of our 22 Law Enforcement districts across the United States are participating in Project Achilles. Several of our districts have established both formal and informal task forces consisting of local, State, and other Federal law enforcement agencies, which jointly conduct investigations involving those individuals who are identified as armed career criminals or use firearms while trafficking in illicit narcotics. Those districts that do not have the personnel to adequately maintain task forces have dedicated agents to target and investigate potential Project Achilles violators.

Project Achilles is an integral part of our Firearms Program that has provided outstanding prosecutive results during its brief existence. Over the last 4 years, we have completed criminal cases that have resulted in enhanced sentencing under 18 U.S.C. 924(e) for 257 defendants. During the same period, we have obtained mandatory sentencing under

18 U.S.C. 924(c) for 407 defendants. Sentences thus far have totaled 6,682 years and are growing daily. These revised statutes have provided us with the capability to significantly impact future violent crime.

While 18 U.S.C. 924(c) provides for mandatory sentences, the 924(e) statute provides for an enhanced sentencing of 15 years for any individual convicted three times of a violent felony or drug-trafficking crime and possession of a firearm. Prosecution of such a criminal under this section of law requires close coordination with State and local authorities. Each of our 22 district offices has initiated these armed career criminal task forces which target and prosecute this felony offender. In FY 1990, the Bureau is expanding Project Achilles by establishing seven new task forces in major metropolitan areas across the country. The following are examples of our accomplishments in this area:

Chicago, Illinois. On April 3, 1989, a defendant with multiple felony convictions for burglary, and armed robbery was sentenced to 30 years. This sentence was the result of the subject pointing a handgun at a police officer during a traffic stop.

Houston, Texas. On October 24, 1989, a defendant with six felony convictions for narcotics and burglary was sentenced to 40 years. The subject, who was engaged in the manufacture and distribution of methamphetamine, was involved in a shootout with other narcotics dealers. Several handguns were found in his possession.

Manchester, Connecticut. On June 6, 1989, a defendant with 27 felony convictions for burglary and other violent crimes was sentenced to 20 years. During the execution of a search warrant on the subject's residence, narcotics and firearms were seized. This was the first armed career criminal sentencing in the judicial district of Connecticut.

Cleveland, Ohio. On July 1, 1989, a defendant with multiple felony convictions for robbery, burglary, and the sale of heroin was sentenced to 15 years. This sentence was the result of the defendant's giving false information to a Federal firearms dealer in the illegal purchase of a handgun.

St. Paul, Minnesota. On May 25, 1989, a defendant with nine felony convictions for robbery, burglary, and firearms violations was sentenced to 19 years. This sentence was the result of the subject's being arrested while in possession of a handgun.

Dallas, Texas. On December 8, 1989, a defendant with four felony convictions for rape was sentenced to 33 years. This sentence was the result of the subject's arrest during the rape of a female while armed with a handgun.

ATF's FY 1989 convictions under 18 U.S.C. 924(c) were 247 defendants who received 1,398 years in prison and total convictions under 924(e) were 103 defendants who received 1,852 years in prison.

LE ASSISTANCE TO U.S. SECRET SERVICE AND STATE DEPARTMENT

During FY 1989, ATF provided 10 staff years of assistance to the Department of State in their protection responsibilities during the United Nations General Assembly. The confidence other agencies have shown in our ability favorably reflects on the professionalism of our special agents.

LE EXPLOSIVES PROGRAM

During calendar year 1988, the latest year for which comprehensive information is available, there were 1,332 reported bombings or attempted bombings that caused 34 deaths, 204 injuries, and in excess of $11 million in property damage.

In addition, more than 12 tons of explosives were reported stolen in 191 separate incidents. ATF's investigative efforts and those of other law enforcement agencies resulted in the recovery of 16.5 tons of stolen explosives. Although some stolen explosives are never reported as recovered, it is thought that significant portions of them eventually find their way back into legitimate uses such as mining, construction, and agriculture. However, with the continuing presence of large quantities of stolen explosives available, the potential for their criminal use remains high.

ATF's Explosives Program encompasses active investigations of criminal bombings and reported thefts of explosives; investigative assistance and training to State and local agencies in support of their explosives enforcement efforts; and protection of the public from potential injury, death, or property damage resulting from the improper storage or illicit use of explosives. In FY 1989, ATF recommended 441 defendants for prosecution for violating Federal explosives laws. The explosives cases that follow show significant results achieved by ATF in this area:

Salem, Indiana. On December 8, 1989, two defendants were sentenced in U.S. district court. The principal defendant received a 15-year, 8-month prison term, and his codefendant received a 12-year prison term. Additionally, each man was fined $1,450. These sentences stem from a 10-month joint investigation by ATF and the Indiana State Police into the July 5, 1988, detonation of 3 bombs and the recovery of 10 others in and around the town of Salem, Indiana. ATF's National Response Team played a significant role in this investigation.

Kansas City, Missouri. On September 22, 1989, a seven-count indictment and an arrest warrant were issued for a suspect in connection with the fire and subsequent

explosion that killed six Kansas City firefighters on November 29, 1988. In addition, a written complaint was filed with the U.S. Attorney's office against the president and owner of the construction company that was at the site of the explosion. The complaint charged him with failing to adhere to the table of distances for storage of explosive materials, storing high explosives in a magazine with metal tools, and acquiring explosives storage magazines without notifying ATF. He was convicted of the charges on January 18, 1990. Sentencing is pending.

Marion County, West Virginia. On April 26, 1989, a Marion County, West Virginia, deputy was seriously injured when a vehicle that had been rigged with a bomb exploded. The deputy had been dispatched to investigate the abandoned vehicle, which had in fact been stolen from the police impound lot in Worthington, West Virginia. Evidence recovered at the scene and information obtained during interviews led the investigators to the suspects, who were subsequently arrested. The vehicle belonged to one of the suspects, who had eluded the police and abandoned the car after a high-speed chase. The suspects then stole the vehicle from the impound lot and rigged it with a bomb that would explode when the door was opened. The vehicle was rigged with the intent of blowing up a police officer.

ATF's timely, effective, and professional response to explosives investigations is the result of enforcement support programs designed to enhance the investigative capabilities of its agents. Among these are:

Explosives Incident System (EXIS). The EXIS program is a computerized source of all pertinent information on every ATF explosives investigation. Its importance as an investigative tool is considerable, for it provides the agents with readily accessible analyses of explosives incidents relative to their trends, patterns, bomb components, and modus operandi. The information obtained from EXIS is routinely forwarded to the U.S. Secret Service, the Federal Bureau of Investigation's Domestic Security and Terrorism Section, and U.S. military explosives ordnance disposal units.

National Response Team (NRT). This program involves four specialized teams that can respond within 24 hours to any scene of a major explosion or a suspected arson. Organized geographically to cover the United States, the four NRT's are each composed of specialized investigators, technical specialists, and chemists. This

specialized response concept is the only one of its kind offered by a Federal law enforcement agency.

Training. ATF's investigative jurisdiction over explosives-related incidents has necessitated training in specialized areas. Each year, a number of agents are selected to undergo training in the latest techniques in the safe handling and destruction of explosive materials, post-blast scene investigation, and explosives training instruction. To ensure its continued expertise in these areas, ATF established an explosives certification and recertification program for its agents, the only such program offered by a Federal law enforcement agency. State, local, and other Federal law enforcement agencies have sought assistance from ATF in establishing similar programs for their officers and agents who have explosives-related responsibilities.

International Explosives Incident System (IEXIS). This program was conceived by ATF in 1986 as a result of the increased threat posed by terrorism. IEXIS, like EXIS, is a computerized repository for historical and technical data to aid in investigating and monitoring international explosives incidents. IEXIS allows analysts to collect, maintain, and disseminate information helpful to investigators in determining motives, patterns, trends, and "signatures". The system provides comprehensive query and statistical reporting capabilities for incident investigations, and it also provides query capabilities for laboratory analyses.

IEXIS has continually evolved since its conception. Major refinements to this program have already been identified and these, along with enhanced EXIS capabilities, will be completed during FY 1990. These major refinements will provide ATF with 4 technical libraries that will contain approximately 25,000 records. The libraries will provide ATF with the names of explosives, military ordnance, formula, and detonators.

State/Local Explosives Training

ATF is committed to assisting State and local law enforcement in their efforts to curtail criminal activities involving explosives. As part of this commitment, ATF initiated the Advanced Explosives Investigative Techniques Course. Since its establishment in 1982, 775 State and local officers have attended this course. The course, developed in

conjunction with the International Association of Bomb Technicians and Investigators, is considered state-of-the-art in post-blast scene investigation and has an enviable reputation within the law enforcement community.

Public Safety and Explosives

Familiar targets of ATF's enforcement actions are the manufacturers of illegal destructive devices such as M-80's. The chemical nature of the explosives used in the manufacture of M-80's is highly sensitive. This sensitivity, coupled with the quantities of this type of manufactured explosive and the lack of quality control, generates a potential for disaster that can be devastating. Consider, for example, a recent investigation initiated by ATF in Conneaut, Ohio. There, two explosions that occurred in a residential neighborhood on October 24, 1989, killed 2 people and injured 17 others, some seriously. In addition, 56 homes and businesses were damaged, and 7 homes were destroyed. The damages total $1.5 million. The investigation revealed that the explosions were caused by an illegal M-80 manufacturing operation. Law enforcement's interdiction of such operations is hampered by the view held by the general public that these explosives are "firecrackers". This is a gross misconception that is fueled by the public's lack of understanding regarding the dangers presented by M-80's and similar devices.

ATF approaches the threat posed by these explosives in two ways: first, through the disruption of the illegal and/or unsafe practices of the manufacturers, distributors, or

transporters; and second, through the education of the public on the hazards presented by these explosives. As part of the first initiative, ATF joined with other Federal and State law enforcement agencies to form a special task force. The task force applies its knowledge of explosives licensing laws and regulations and the explosive materials distribution system to identify the receiver of the explosive materials used in the manufacture of illegal devices. In support of the second initiative, ATF continued its vigorous public awareness campaigns, utilizing its Public Affairs Branch, local law enforcement authorities, and the media to impress upon the public the seriousness of these explosives.

Arson/Bombing Profiling

In 1987, ATF undertook a new initiative to more effectively address the increased threat posed by arson and the illegal use of explosives. Because of its leadership in the area of arson and explosives investigation, ATF was invited to participate in a 10-month fellowship program sponsored by the FBI's Behavioral Science Unit in Quantico, Virginia. The program involves criminal personality profiling of arson and bombing suspects. A special agent from the Arson Enforcement Branch completed the program in 1988, and a second special agent from the same branch is currently participating.

As in FY 1989, ATF and the FBI are continuing their interviews with convicted arsonists and bombers. From these interviews, the profilers will develop a database to be used in identifying possible suspects based upon characteristics

particular to a fire/bombing or a series of fires/bombings. This information will then be analyzed and compared, thus expanding the knowledge available to profile these types of crimes. Currently, all arson cases submitted to the FBI's Behavioral Science Unit for profiling are being completed by ATF.

Arson Enforcement

Congress defined ATF's jurisdictional role in the investigation of arson crimes with the passage of the Anti-Arson Act of 1982. In promoting this role, ATF committed itself to providing investigative assistance to Federal, State, and local agencies to fight the national arson problem. In FY 1989, ATF responded to 446 incidents nationwide that resulted in 49 fatalities and 126 injuries. In addition, ATF's joint enforcement efforts "saved" the insurance industry $29.8 million. This money has been "saved" in the sense that, in the absence of these effective law enforcement efforts, the insurance industry could have potentially paid out $29.8 million in fraudulent insurance claims. Since 1980, these savings have amounted to $382.4 million.

ATF's investigative emphasis is directed toward arson-for-profit crimes involving industrial and commercial targets that affect interstate commerce. The complexity of this financially motivated crime sometimes unravels a series of other major felony crimes that may reach beyond state and national boundaries. In FY 1989, ATF recommended 347 defendants for prosecution for arson crimes. ATF is confident

that the direction of its investigative activity is compatible with the overall Federal role required to combat the crime of arson.

ATF's past and continuing efforts to combat arson crimes include the use of many investigative techniques, one of which is the National Response Team concept. The immediate deployment of a highly trained and specialized team of agents and support personnel to the scene of a major arson has proven to be extremely effective and successful. Of 215 activations for the four teams in the past 10 years, ATF's solution rate for determining the cause and origin of the incident is 91 percent.

Another investigative technique is the use of a canine to determine and pinpoint the location of suspect accelerants. While instruments can also detect these accelerants, experience demonstrates that for speed and efficiency, the olfactory abilities of a canine are superior. ATF's program with the Connecticut State Police to train canines to identify accelerants has exceeded all expectations. The unprecedented success of this program, which is currently administered by the Connecticut State Police, has generated considerable interest from law enforcement agencies throughout the United States and Canada. Moreover, with the proven value of a canine as an aid in fire investigation, further examination of the investigative applications of canines is justified.

The magnitude of the arson problem nationwide precludes any one agency from effectively addressing the problem. ATF's

arson task force concept continues to be one of the most successful weapons to attack this problem. The implementation of such a concept, which provides maximum efficiency through the pooling of ATF and State and local talents and resources, has proven vital in the swift identification and prosecution of those responsible for perpetrating the crime of arson. The concept has also fostered interagency cooperation. ATF currently has task forces in the cities of Seattle, San Francisco, Houston, Los Angeles, Chicago, Boston, New Orleans, New York, Philadelphia, Pittsburgh, Kansas City, Detroit, Newark, Dallas, and St. Paul.

ATF continually strives to perfect its mutual enforcement efforts by offering creative and innovative training programs. Among these training programs are:

Advanced Arson-for-Profit for State and Local Officers. This 2-week course, unavailable anywhere else, offers unique, state-of-the-art training involving indepth investigations into arson-for-profit cases beyond the cause and origin determination. Since its inception in 1982, over 800 State and local police and fire service personnel have attended this highly acclaimed course.

Arson-for-Profit for Prosecutors. This 1-week course was designed to educate prosecutors at both the Federal and the State level on the crime of arson. The course acquaints the prosecutor with the cause and origin determination of a fire as well as the legal considerations necessary to successfully prosecute a case that is based primarily on circumstantial evidence. Since its inception in 1986, over 200 prosecutors have received this training.

Arson-for-Profit for Insurance Claim Supervisors. This 1-week course is designed for insurance company claim supervisors. The course familiarizes the insurance personnel with ATF's arson task force policy and the intricacies of investigating an arson-for-profit crime. Since its inception in 1986, over 200 insurance claim supervisors have received this training.

ATF initiated its own cause and origin training program to assist its field offices and to augment the assistance provided by its State and local counterparts. This cause and origin training, 2 years in length, encompasses formal instruction and field experience. Twenty-two ATF special agents completed the training in 1988, and 22 more are being trained.

The following is a sampling of ATF's work in the area of arson investigation:

Harvey, Illinois. *On May 15, 1989, a fire occurred at Brown's Famous Steak House, causing $500,000 damage. An investigation ensued, and a suspect was developed. As a result of investigative efforts, the suspect (the owner of the restaurant) pled guilty to arson charges and was subsequently sentenced to 4 years' imprisonment. This case is significant because it was based almost entirely on circumstantial evidence.*

Waco, Texas. *On February 23, April 5, and April 6, 1989, fires were set at the Central Texas Chiropractic Clinic. The fires caused damage in excess of $450,000. The initial investigation conducted by ATF and the Waco Police and Fire Departments revealed inconsistencies in the financial statements of the clinic. Further investigation revealed that an employee of the clinic had endorsed checks to the clinic without authorization. Discrepancies in statements made by the employee in an interview prompted the execution of a search warrant at her residence. There, the investigators uncovered incriminating evidence, including a signature stamp, bank deposit records, and deposit envelopes. During a subsequent polygraph examination, the employee admitted to setting the fires in an attempt to cover up the fact that she had embezzled funds from the clinic. On October 6, 1989, the employee pled guilty to arson charges and was sentenced to 37 months' imprisonment and 3 years' supervised probation. She was also ordered to pay $472,000 in restitution.*

Miami, Florida. *On December 28, 1989, a defendant in an arson-for-profit case was sentenced to 32 years' imprisonment. His codefendant was previously sentenced to 6 months' imprisonment and 3 years' supervised probation. The sentences stem from a 1-year investigation that began on September 6, 1988, when the*

National Response Team responded to the scene of a $5 million arson fire at the International Warehouse Distribution Corporation (IWDC) in Miami, Florida. The defendant was the leader of an arson ring that was responsible for at least three, multimillion dollar arson fires, of which the IWDC fire was one. Total losses as a result of these fires are estimated at $15 million.

Toledo, Ohio/Fairfield, New Jersey. On October 17, 1989, an ATF fugitive was arrested in New Caldwell, New Jersey. It is believed that at the time of her arrest, the fugitive was in route to an abortion clinic in Fairfield, New Jersey, to attempt a second arson at the location in a 3-day period. The subject was a fugitive as a result of a multiple-count indictment rendered in 1987 in Ohio. The indictment charged her with committing two abortion clinic arsons and making telephonic bomb threats. She was also being sought for bond jumping, for being a prime suspect in abortion clinic arsons in Pennsylvania and western Maryland, and for assaulting ATF agents during her arrest on the charges stemming from her indictment. On November 2, 1989, the subject was indicted for the attempted arson of the abortion clinic in Fairfield, and on November 6, she was sentenced to 10 years' imprisonment for the assault charges. She still faces the Federal charges for the two abortion clinic arsons, the telephonic bomb threats, and the bond jumping.

EQUAL OPPORTUNITY

Finally, but by no means least important, are the equal opportunity activities of the Bureau. Equal Opportunity responsibilities are included in performance standards for all Bureau executives and managers who are responsible for implementation of the Bureau's affirmative action plan. Equal opportunity continues to be an integral part of the Bureau's mission as evidenced by the noteworthy accomplishments.

The Bureau has in place a Multi-Year Affirmative Employment Plan (AEP) prepared by the Office of Equal Opportunity and approved by the Equal Employment Opportunity Commission (EEOC). Through enhanced recruitment efforts, there is now full representation of minority male Special

Agents in Law Enforcement. Although females have historically been underrepresented in Federal Law Enforcement, the representation of female Special Agents has risen 256% in the past two years and they now represent 9% of the Special Agent workforce. These results are largely due to the Minority Impact Program (MIP) initiated by Law Enforcement several year ago. Nine percent (9%) of the Law Enforcement supervisory positions are filled by minorities and women and, as the pipeline of minorities and women in the workforce grows, these figures are improving.

Compliance Operations continues active recruitment efforts to hire minorities and women inspectors and auditors. Both white and minority women are fully represented in the inspector series. Compliance has initiated a targeted recruitment program called Compliance Affirmative Minority Employment Outreach (CAMEO) to address the underrepresentation of minority males in this series.

The Office of Equal Opportunity spearheaded a program within Treasury to coordinate Special Emphasis Programs and observances within the Department providing a unique forum of cooperation among the Bureaus.

We continue to have a strong belief in the Equal Opportunity Program and our commitment to the program has been clearly communicated to all of our managers, supervisors, and employees.

BIOGRAPHY

ARTHUR J. LIBERTUCCI, JR.

Arthur J. Libertucci, Jr. was appointed Comptroller of the Bureau of Alcohol, Tobacco and Firearms on February 4, 1990. This appointment is a continuation of positions of increasing responsibility held by Mr. Libertucci during his career with the Bureau.

Prior to becoming Comptroller, Mr. Libertucci was the Deputy Associate Director for Compliance Operations and was responsible for overseeing the regulation of the legal alcohol, tobacco, firearms, and explosives industries including the collection of $10 billion in alcohol and tobacco excise taxes.

Prior assignments within the Bureau included the following positions. He was Chief of the Revenue Programs Division at Bureau headquarters from 1987 until his appointment as Deputy Associate Director, August 1989. He was promoted to Chief of Technical Services in New York City in 1981 and became Chief of Field Operations in New York in 1982. He became an Area Supervisor in New York City in 1977 and was Area Supervisor in Union, New Jersey from 1978-1981. He transferred to Albany, New York, in 1973 and was promoted to Bureau headquarters in Washington, D.C. as a Specialist in 1975. Mr. Libertucci joined ATF in 1970 as an inspector.

Mr. Libertucci graduated from Providence College with a BA in 1969 and from Monmouth College with an MBA in 1984.

BIOGRAPHY

DANIEL R. BLACK

As Associate Director of Compliance Operations for the Bureau of Alcohol, Tobacco and Firearms (ATF), Daniel R. Black supervises the regulation of four major industries--alcohol, tobacco, firearms and explosives and oversees the collection of nearly $10 billion dollars annually in Federal excise taxes from the alcohol and tobacco industries. He also holds the position of Deputy Director and is responsible for overseeing the operation of all ATF line and support functions.

Mr. Black began his career with the Internal Revenue Service, Alcohol and Tobacco Tax Division in 1967. Initially assigned to the San Francisco Area Office, he later worked as an Inspector in the Santa Rosa, California area. In 1971, he went to the National Office in Washington, DC, as a participant in the Internal Revenue Service Compliance Intern Program. There he was assigned to the Management Staff and in 1972 he became a member of the Bureau's Office of Internal Affairs. During 1973, Mr. Black was transferred to New York as the Chief of Field Operations and then named Regional Director of the North-Atlantic Region in 1977. He transferred to Cincinnati, Ohio, as the Regional Director in the Central Region in 1978. In 1980, Mr. Black was again reassigned to Bureau Headquarters as Chief, Industry Compliance Division and later as Chief of the Compliance Staff. He served as the Deputy Associate Director of Compliance Operations from 1986-1989.

Mr. Black is a U.S. Navy veteran, who graduated with a B.A. degree in Political Science from San Francisco State University in 1967. He has completed both the Senior Executive Education Program at the Federal Executive Institute in Charlottesville, Virginia, and the Contemporary Executive Development Program at the George Washington University. He is a member of the Federal Government's Senior Executive Service. Prior to joining ATF, he worked as a laboratory technician for the Shell Oil Company in Oakland, California.

Mr. HIGGINS. We will show you a short videotape, and then respond to your questions. Each year we try to emphasize a program of some timely significance. This year we would like to provide you with a glimpse of our efforts to use the statutes and the resources that you have given us. We continue to target violent armed career criminals, particularly those involved in narcotics related activities.

Before we show you the video, I want to express our sincere appreciation for your continuing interest in, and your support of, our Bureau's missions and programs. I believe we have used the resources you have given us in a responsive, effective, and professional manner, and I think with impressive results.

This video show is a program that you will recognize. The Law Enforcement Television Network prepared the program for broadcast. We have adapted excerpts from the program.

[Videotape shown.]

Mr. HIGGINS. We will be happy to answer any questions you may have.

MINORITIES IN LAW ENFORCEMENT

Mr. ROYBAL. Mr. Higgins, I notice that the main star in this presentation was a woman who has a title of special agent. Is that title given to her because she is on a special assignment?

Mr. HIGGINS. All of our GS/GM 1811 series personnel are classified Special Agents. She is the Assistant Special Agent in Charge of our District office in Philadelphia.

Mr. ROYBAL. But she is not here today?

Mr. HIGGINS. No sir. She is working in Philadelphia.

Mr. ROYBAL. I wish she were here so that I can ask her a few questions with regard to attitudes. A picture like this does not show the attitudes of the men under her, nor does it show whether or not she had any difficulty getting to the top of her position. I have received complaints about discrimination against Hispanics and against women within the Bureau of Alcohol, Tobacco and Firearms, as well as the FBI.

What is the situation with regard to discrimination against women, Hispanic and other minorities? And can you supply for the committee the number of women who are employed and Hispanics and the other minorities? So what is the situation in general, and then we can go into the details.

Mr. HIGGINS. We will provide those answers for you.

[The information follows:]

Currently, ATF is processing 30 active individual EEO complaints. Seven of these complaints were filed by women and 14 were filed by other minorities. To date, there have been two complaints filed by Hispanic employees.

The EEO program is highly visible and accessible to all employees. The pictures, names and telephone numbers of EEO Counselors and EEO Managers are posted for employee information. Further, the EEO Office plans and conducts special emphasis programs to heighten the awareness of all individuals as it relates to persons with different cultural and ethnic backgrounds.

The importance of equal treatment of all employees in a diverse workforce is stressed during managerial and supervisory training sessions.

BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS—MINORITY AND FEMALE STAFFING STATUS AS OF SEPTEMBER 30, 1989

Staffing	Agents		Inspectors		Other		Total	
	No.	Percent	No.	Percent	No.	Percent	No.	Percent
Total males	1,559	91.3	448	59.6	301	24.4	2,308	62.5
Total females	149	8.7	304	40.4	931	75.6	1,384	37.5
Total staffing	1,708	100.0	752	100.0	1,232	100.0	3,692	100.
White males	1,372	80.3	403	53.6	222	18.0	1,997	54.1
White females	122	7.1	224	29.8	576	46.8	922	25.0
Minorities	214	12.6	125	16.6	434	35.2	773	20.9
Grand total	1,708	100.0	752	100.0	1,232	100.0	3,692	100.0
Minorities:								
Black males	93	5.5	19	2.5	62	5.0	174	4.7
Black females	15	0.9	49	6.4	296	24.0	360	9.8
Hispanic males	80	4.7	17	2.3	6	0.5	103	2.8
Hispanic females	8	0.5	17	2.3	40	3.3	65	1.7
Asian males	11	0.6	8	1.1	10	0.8	29	0.8
Asian females	4	0.2	9	1.2	16	1.3	29	0.8
American Indian males	3	0.2	1	0.1	1	0.1	5	0.1
American Indian females	0	0.0	5	0.7	3	0.2	8	0.2
Subtotal	214	12.6	125	16.6	434	35.2	773	20.9

We do not think there is discrimination in ATF.

We are working with a group of black agents to resolve some issues. We are trying to be responsive to their concerns and inform them of some things we are doing, of which they may not be aware.

With respect to women in law enforcement, we would be happy to have Special Agent Moore talk with you. Traditionally, law enforcement as a career has been male dominated. The numbers we provide you will show that we have made progress. I think they will also show you we have room for improvement.

If you speak to Special Agent Moore, I think she will say it has been tough; but hopefully, she will say we have been fair to her in her career.

Mr. ROYBAL. Sure. No doubt it has been tough, but as long as her colleagues have been supportive in a positive way and not biased I think that that would be an indication that she is judged solely on her capabilities. I think that all people should be judged solely on their capabilities.

Mr. HIGGINS. When we selected Special Agent Moore for the project, we surveyed field personnel to determine the best candidate given the combination of experience in working with people and working in communities. She ranked number one and I guarantee you she did not disappoint us.

STAFFING NEEDS

Mr. ROYBAL. I can see that. Now you are proposing increases in personnel offset by decreases in other areas, but the final figures that you arrive at is the exact same number that is for the year 1991. Can you summarize for us that amazing coincidence?

Mr. HIGGINS. I would like to blame it on new math. We are in a situation similar to other agencies in that the Administration and the Department have certain priorities. The Bureau is given an opportunity to determine what we think our needs are, and these form the basis for our request. Probably, most agency directors that come before you do not think they have enough personnel. We do not employ as many personnel today as we had in the late 1970s.

We were given an opportunity to request more people and to try to justify our request. We were given a fair hearing, and this budget represents what the Administration thinks is a fair level. I think Mr. Nummy may be in a better position to explain that part of it. It appears to represent balancing of competing resources.

Mr. NUMMY. Just to reinforce what Mr. Higgins said, we obviously have a lot of bureavs who are competing for a limited pool of resources. ATF increased by 185 agents last year. The President's anti-crime initiative calls for annualization of that in 1991. I believe the Administration and Treasury agreed that the increase was adequate given the budgetary constraints.

Mr. ROYBAL. I ask these questions, Mr. Higgins, because I do not want to see the same situation that we experienced a few years ago when this agency was going to be phased out without the knowledge of this committee. We think that should not happen. We would like to see this agency continue doing its job, because you have been doing an excellent job.

Mr. HIGGINS. Thank you.

Mr. ROYBAL. That is the reason I am asking these questions, because I do not want to see that.

Mr. HIGGINS. I think the Department has been very supportive of our efforts.

Mr. ROYBAL. So there is no further indication that there is going to be a decrease, but on the contrary it looks like it is going to be increased.

Mr. HIGGINS. We hope so, but then we have to compete with a lot of other Bureaus for these limited resources.

Mr. NUMMY. If I could just say that from the Department's point of view, I think we take great pride in the efforts that ATF is doing, and contrary to any idea of phasing out, we are totally supportive of their enforcement efforts.

Mr. ROYBAL. I think I did use the word to phase out, and that is not what I meant. You are going to be merged into another bureau and make one bureau out of three at that particular time.

Mr. NUMMY. And I am sure you said there is no thought to doing that at all.

AUTOMATIC WEAPONS

Mr. ROYBAL. And that would have been the worst mistake we could have made. Now, to go into the automatic weapons that I know little about, but I am interested in learning something about it. How easy is it to convert semi-automatics to fire fully automatic? Is that any easy process?

Mr. HIGGINS. It is not easy for the person who does not have sophisticated equipment, but it is possible. There was a class of weap-

ons that was manufactured in a way that made them very easy to convert into automatic weapons.

We declared those weapons designed and manufactured for conversion to be automatic weapons subject to all the controls. They have to be registered with us. When they are transferred, a transfer tax is paid and the Bureau must approve the transfer. There are instances where legitimate semiautomatics are converted because somebody has the knowledge to take them into a machine shop for conversion. Conversion probably does not occur with the frequency that you may see in some of the television shows, but it is possible and it does occur.

Mr. ROYBAL. There must be a large number of illegal machine guns in the United States.

Mr. HIGGINS. The difficulty is in determining where they are, but when discovered we seize them.

Mr. ROYBAL. Obviously you would not be able to get anything that did not exist.

What is the situation at the present time? Is it fair to say that you will be seizing more illegal machine guns?

Mr. HIGGINS. Part of that will be a reflection on staffing and the type of cases we are working. I think as we work narcotics traffickers and violent criminals, we would see in that population a higher number of automatic weapons, or semiautomatic weapons.

Mr. ROYBAL. Is there a major problem with regard to illegal machine guns? And the answer, I would say, is yes.

Mr. HIGGINS. Yes, sir. Use of these weapons is a growing concern. We are working to contain it, but that requires additional investigations.

ASSAULT RIFLE

Mr. ROYBAL. All right. Now, is there a definition for an assault rifle?

Mr. HIGGINS. Yes, sir. One was developed last year.

Mr. ROYBAL. All right.

Mr. HIGGINS. The Bureau reviewed a class of weapons, foreign-made semiautomatic rifles. Our study related to the imports to determine if these weapons had a sporting purpose. We found there was a category of weapons that could be identified by certain physical characteristics: pistol grips; large detachable magazines; barrel shrouds; a lug for putting bayonets on; something which could be equipped with silencers, or other features that made them more military in appearance.

The study reported they were not being used for sporting purposes. Those are the weapons that we kept out of the U.S. and are designated semiautomatic assault rifles.

ARMED CAREER CRIMINALS

Mr. ROYBAL. Would you tell the committee what you have been able to do to combat the activities of the armed career criminals?

Mr. HIGGINS. Investigating these criminals is a high priority within ATF. I will provide you with staffing numbers of people we use in that program. In March, we will be starting eight more task forces to target armed career criminals. We have a number of ef-

forts under way throughout the country. I know some of your staff have observed our operation and seen the results of those efforts.

We think the laws that you have given us are of great assistance in targeting armed career criminals. These criminals commit disproportionate numbers of crimes. Thanks to the mandatory minimum sentencing provisions Congress has given us, we can put them away for a minimum of five years if we arrest offenders with a gun. If they are repeat offenders and have three or more violations, the minimum sentence is 15 years. Those are effective statutes, and we utilize them as much as possible.

SUMMARY OF FY 1991 BUDGET INCREASES

Mr. ROYBAL. Would you outline for the committee in writing what your increase of $11.2 million will do, in addition to what is being done now?

Mr. HIGGINS. Yes, sir.

Mr. ROYBAL. That can be submitted for the record.

Mr. Skeen?

PROGRAM REDUCTIONS

Mr. SKEEN. Thank you, Mr. Chairman. Mr. Higgins, good to see you and all of your group. I think you do an outstanding job. And I am a little concerned about the reductions in the alcohol program and particularly in the qualification area. What is the impact on the industry and what kind of abuse does it tend to encourage?

Mr. HIGGINS. From the Bureau's standpoint, the industry is one which has historically had a high compliance rate.

Mr. SKEEN. On a voluntary basis.

What about the qualification process?

Mr. HIGGINS. Applicants for permits have to go through a background investigation, and we obtain financial statements on source of funds and credit history. This is a very restricted category of taxpayers. They know that if they fail to pay their proper amount of taxes, mislabel products or commit other violations, their permit is subject to revocation. It is not the same as being an individual taxpayer whereby if you cheat on your tax return, you are the only one that suffers. These alcohol industry taxpayers could lose their entire business if they cheat on their taxes. We refer to that as voluntary compliance, however the rules are there which make it effective.

Mr. SKEEN. I understand. It is kind of like—paying income taxes and voluntary compliance——

Mr. HIGGINS. Yes, Sir.

Mr. SKEEN [continuing]. Or else.

Mr. HIGGINS. Our concern historically has been that any reduction in funds for compliance activities would impact revenue. In the first year you would see little, if any, under payment of revenue because these people still believe they are going to be detected. Over a period of time, if people knew that they were not so apt to be audited and believed we did not have controls in place, you would see a rapid decrease in the efficiency of an excellent system of tax payment.

Mr. SKEEN. But it could have a big revenue impact.

Mr. HIGGINS. It has more of a long range potential impact rather than what I would characterize as a short range effect.

Mr. SKEEN. No. But it is one that you are going to have to contend with. And what I am concerned about is any reduced effort in this thing could have an impact somewhere down the road.

Mr. HIGGINS. It always has a potential negative impact.

HEALTH WARNING LABELS

Mr. SKEEN. Let us talk about these health warning statements and the labeling act. How is that enforcement going to work?

Mr. HIGGINS. We examine the labels that come in, and we also have people out picking up market samples and reviewing the warning labels that are affixed. We intend to strictly enforce that law which I think is what Congress intended.

Mr. SKEEN. The reductions in that program will not serve to hamper the progress of the enforcement of that?

Mr. HIGGINS. I would be misleading you if I said we assigned fewer people to do the same amount of work. We have increased productivity over the years.

Mr. SKEEN. You are being very optimistic.

Mr. HIGGINS. Yes, Sir. If we have fewer people, we will check fewer labels. We also know we need to do a better job.

ARMED CAREER CRIMINAL PROGRAM

Mr. SKEEN. The Chairman asked you about the impact on the reductions in the armed career criminal program. And I think you mentioned that the program has been very effective. I hope the reductions will not impact on that effectiveness. Do you foresee any——

Mr. HIGGINS. We have priorities within our programs. Aside from a bombing, which has top priority, the war against organized crime and violent criminals is our major priority. We are going to do everything possible to see that we conduct as many of those investigations as we can. To the extent we do not have more people, we pursue fewer cases.

Mr. SKEEN. What you are saying though, with the reductions you are still going to try to do more with fewer folks and that.

Mr. HIGGINS. No, Sir, although somebody said we have done more with fewer for so long.

Mr. SKEEN. With fewer for so long now. When did we reach the optimum limitations or point of no return or something?

Mr. HIGGINS. I do not know if anybody has that answer. We have achieved good case productivity through the years.

Mr. SKEEN. I think you have shown excellent productivity.

Mr. HIGGINS. We hope it will continue. We know that at some point diminishing returns occur. We will work investigative cases as long as we have people available to do the work.

COMMUNICATIONS AND EQUIPMENT

Mr. SKEEN. Okay. Give me some idea of the condition of your communication equipment. We asked this of Secret Service, and I know you have a similar problem, as well as the rest of your equipment, your rolling equipment and things of that kind.

Mr. HIGGINS. Yes, sir. We will provide you some material for the record.

[The information follows:]

We are currently receiving very severe interference, in some areas, from two commonly used commercial paging frequencies in the high band VHF radio range. The pagers typically have 350 watt transmitters operating on the same antenna, which is often adjacent to our system. The result is a very strong signal which uses exactly the same frequency as our primary operating channel. The result can be devastating to our law enforcement radio communications. The FCC has provided us some assistance in identifying the location of the offending stations and correcting the problems, but their resources have not permitted them to follow up as quickly and successfully as necessary.

The vast proliferation of commercial and government transmitters is causing significant increases in the numbers and types of radio interference problems we encounter nationwide in our operations. We have had to relocate some of our systems to escape the problem, at significant cost in money and manpower.

Mr. SKEEN. I am concerned, because if you are going to have to hold on to your personnel, which you should do, and that is your priority situation, then we let the data processing, and other equipment, and our investments in the communications, and rolling, stock and the rest, and other equipment go. And we also reach a point of no efficient return.

Mr. HARTNETT. We have a standard that we use for every new agent as far as equipment is concerned. We also have a standard for safety equipment across the Bureau. For example, every new agent is provided a vest, a firearm, and items for personal safety.

Mr. SKEEN. A do-it-yourself go-get-them kit.

Mr. HARTNETT. Well, sir, not quite. We also provide them with the necessary training, too.

Mr. SKEEN. I am sure you do.

Mr. HARTNETT. Radios are probably one of our more expensive commodities. We are switching over to a digital encryption standard (DES). I think all the agencies are. It is a gradual process. We are in the fifth year of replacing radios. It is going to take us at least another couple of years to complete our DES radio system across the country.

Mr. SKEEN. DES?

Mr. HARTNETT. It is a restricted code communication system.

Mr. SKEEN. Okay.

I understand you have had some problems with incompatibility with other agencies.

Mr. HARTNETT. No, sir. Most agencies are converting to DES. Repeater units and some other equipment, such as the number of car phones, cellular phones and transmitters that are located around the country are causing problems. We are discussing this with FCC. Pagers are having a tremendous impact on our radios, even during undercover operations where they are cutting our agents off the air because they are so close to our frequency. They are just blowing us off the air. This happened in Florida during undercover operations.

Mr. SKEEN. Somebody with a pager blew you off the air?

Mr. HARTNETT. Yes, sir. They hit their repeaters that are so close to our frequency, that it knocks us off line. It is a very serious situation. The only thing we can do to combat this problem is to

put up more repeaters and run land lines. That is a very costly solution.

Mr. SKEEN. Is FCC sensitive or cognizant of what your problem is? I am sure they are cognizant of it. Are they sensitive to it?

Mr. HARTNETT. They are working with us. Mr. Higgins has written FCC to resolve these problems. Usually in the larger metropolitan areas, there are many pagers.

Mr. HIGGINS. We will provide you with a copy of our request to FCC.

Mr. SKEEN. Thank all of you very much. Thank you, Mr. Chairman.

Mr. ROYBAL. Mr. Akaka?

INTERNATIONAL TRAFFIC IN ARMS

Mr. AKAKA. Thank you very much, Mr. Chairman. Your statements on international traffic and arms are rather frightening. So my question to you is, is illicit movement of firearms in and out of our country a growing problem? And also, what kind of weapons are being moved? And what are they being used for.

Mr. HIGGINS. Through the program we described we have been training police forces in various countries in weapons identification. Many weapons entering the United States are purchased through a number of methods, sometimes with the involvement of the dealer who knows they are being purchased illegally.

Generally the dealers are very cooperative, and they will notify us if they see somebody suspicious purchasing weapons. There are other individuals who falsify identification. Weapons are being purchased in small quantities in the U.S. and then smuggled to either South or Central America, Ireland, and other places.

Colombia is a good example of this problem. We sent agents to Colombia this past year to help train local police, and also to obtain identifying information from U.S. firearms seized there. After obtaining identifying information, we trace them to find out which U.S. dealer is selling them and who is buying them from the dealer. We terminate both the firearms licensee source, if they are involved implicitly, and/or the person who is illegally buying the firearms.

The most prevalent type of gun traced from Colombia is the AR-15, which is produced in the U.S.

Mr. AKAKA. Colt?

Mr. HIGGINS. Yes, sir. Colt AR-15. Then you had the Smith and Wesson handgun just coincidentally happened to be second. Then you saw a number of other semi-automatic weapons, handguns and pistols. So there seems to be a tendency on their part to go after the semi-automatic weapon, which probably is not surprising, because they are talking about they have plenty of money to pay for these things with, and they are also looking for weapons that they can use in defense, either of their activities there or protect either their laboratories or their people. And so you would expect them to be going after the semi-automatic, and in some cases converting those to automatic weapons.

We are seeing a pretty good mix. There are a lot of guns that come through the United States and go directly to South and Central America.

Mr. AKAKA. As you said, it seems as though those guns they used for their defense or protection. Are those guns also used for terrorist activities?

Mr. HIGGINS. Yes, sir. The difficulty in answering that question, from our viewpoint is that we get the results in stages. For example, we get a list of 2,000 guns from the Colombian military or the Colombian National Police. We do not know whether these guns came from raids of terrorists, or whether they were obtained in clandestine laboratory raids, or whether they were taken from traffickers. A safe assumption would be that terrorists have a fair amount of weapons down there. It is difficult to distinguish who is a terrorist and who is not in a country such as Colombia.

ENFORCEMENT TOOLS

Mr. AKAKA. Your armed career criminal program that brings on jail penalties for convicted felons, and also your comprehensive crime control act for firearm violation associates with federal crime of violence have been, I think you would say, successful. And we look at these as being powerful tools that you can use in your enforcement. Do you consider this to be a productive area of work for your agency, and are you satisfied that you have enough resources to adequately investigate all of the criminals who could be prosecuted under these statutes?

Mr. HIGGINS. We consider law enforcement to be a very productive area of work, and we think statistics bear that out. We work closely with State, local, and Federal law enforcement agencies.

Whether or not we have enough people, I am convinced we have as many people as Mr. Nummy is going to allow. Obviously more people result in more arrests. We will make sure that we arrest as many armed career criminals as we can.

DRUG RELATED BOMBINGS

Mr. AKAKA. That is all I was interested in when I asked about enough resources. I guess you never have enough, but we hope that you have adequate resources to carry on your programs successfully. On explosives, it appears that drug related bombings have really increased. The problem is growing. You have made some recoveries during your investigations in Fiscal Year 1989. Does this problem seem to be on the rise?

Mr. HIGGINS. We see this as a growing problem and an area of concern. Dan, you may want to respond.

Mr. HARTNETT. The first year we started to track them, we identified 65 bombings nationwide that were drug related; either traffickers using explosives against each other, or else in retaliation for some other purpose. Our success rate is very good because we are able to quickly establish a motive. We also see a growth trend because we have never had more than 143 drug related bombings like we experienced in FY 1989.

Mr. AKAKA. The 143 discoveries that you made was a rapid increase. The discoveries were made in 1989. Do you believe there

would be merit in imposing mandatory sentences or enhanced penalties in the same manner for career felons who are found in the possession of explosives or who use explosives to commit crimes?

Mr. HIGGINS. Yes, sir. Yes, I believe that violent offenders and/or repeat offenders who use explosives in furtherance of their violent acts should be subject to mandatory sentences or enhanced penalties. The establishment of stricter guidelines could serve as a deterrent to these offenders. Whether you are using a firearm or using explosives, I see little difference in distinguishing one from the other. Explosives laws should be parallel to firearms laws.

Mr. AKAKA. What kind of priority do you give explosives in your program?

Mr. HIGGINS. Bombing response is our number one priority. Whatever we are doing, if a bombing occurs, especially if there is personal injury involved, we respond immediately. Similarly, if a fire involves arson in which a fireman is injured or killed, we respond promptly when we have jurisdiction.

Mr. AKAKA. What kind of resources are you devoting to these investigations?

Mr. HIGGINS. The Bureau has 823 FTEs and $67.6 million included in the Law Enforcement Explosives Program request for FY 1991.

EXPLOSIVES IDENTIFICATION

Mr. AKAKA. We have carried the prohibition in our bill against the use of funds for explosive identification or detection tagging research development or implementation. Does this language pose a problem to your agency? And if not, does it need to be clarified through legislative history?

Mr. HIGGINS. We have been very aware of that language to make sure that we are not in violation. Most of the language does not mention taggings. The focus is on additives, because the point is to find ways to identify explosives before they detonate. That seems to be where all the research is directed.

From our viewpoint we are able to work within that language. I honestly think it would be a whole lot easier and probably a better approach if there were some clarification, whether it be in the record of this Committee or elsewhere, to clearly state your expectations. That would be helpful to us.

Mr. AKAKA. Yes. Well, we would certainly like to know from you how we can clarify that.

Mr. HIGGINS. Yes, sir.

[The information follows:]

Yes, sir. We believe that it is not the intent of this provision to preclude ATF from assisting in studying the feasibility of identifying an additive that could be used to detect explosives. In addition, we believe that ATF should be able to provide technical assistance to any organization in its attempt to develop a method for marking explosives to facilitate their detection.

ALCOHOL PROGRAM

Mr. AKAKA. We certainly appreciate that. With respect to alcohol, I do not know whether the problems are declining, but your request proposes a reduction of $3.9 million and 51 FTE positions. As a consequence, you will conduct 700 fewer inspections in areas

of qualification, trade practices and product integrity. Do you anticipate any loss in income as a consequence of conducting 700 fewer inspections?

Mr. HIGGINS. Yes, sir. It is regrettable, in terms of ranking our programs in priority, that the alcohol program ranks highest when we need to take a cut. We see potential problems in terms of the type of people that go in to the business, not being able to screen out as many applicants, and also not ensuring accurate product labeling.

The possibility of a loss of revenue from our tax collections, would probably not be a short term consequence. This would become a long term consequence.

SPECIAL OCCUPATIONAL TAX

Mr. AKAKA. In your testimony, you speak of improving excise tax collection from a large number of special occupational taxpayers. In your testimony, you estimated that there would be 600,000 in this class of taxpayers of which 200,000 may be delinquent. That represents one-third of your delinquency rate. Why does this class have such a poor record of compliance?

Mr. HIGGINS. Your mail probably gives you some idea. This is a program transferred to ATF from IRS a couple of years ago. We have been doing many things since that time to increase compliance. We are matching State records and placing notices in the trade press. Many people who have not paid it say they never heard of the tax. Their accountants claim not to know about this tax. Since they were never contacted because they were not on our mailing list, they simply did not pay.

As we compare these State lists and build our database, we are going to be dramatically reducing the number of delinquent taxpayers. I assume that your Congressional mail will go up accordingly to reflect people thinking that we are somehow taking advantage of them. I stay out of the issue about whether or not they should have known about it. Some people have been in business 20–25 years and never paid the tax. By the time we find them, a large amount of tax is due.

Mr. AKAKA. Do you think there is a need for taxpayer education on this? And do you have a program for that?

Mr. HIGGINS. Yes, sir. We have a lot of ways of educating the taxpayer. Yes, there is a need. There also is a proposal in the budget to shift that tax from the retail level to either the wholesale or the producer level, which would be one way of ending the problem at the retail level. But the things that we can do while that tax is in the current form are to reach out through the trade press, through the retail associations, the national restaurant association or similar organizations. We make sure that we are giving taxpayer as much notice as possible. As we develop our database, taxpayers receive annual renewal notices and other information.

Mr. AKAKA. Thank you very much, Mr. Chairman. Thank you, Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Akaka.

DRUG RELATED REQUEST

Mr. ROYBAL. Mr. Higgins, three quick questions. As you know, the drug interdiction program or the war on drugs actually comes under 13 committees of the Congress. Can you tell this committee how much of your request for 1991 will be devoted to the so-called war on drugs?

Mr. HIGGINS. Yes, sir. Fifty percent of our Law Enforcement effort is devoted to drug related activities. Of our overall budget 36.6 percent is drug related. A little more than a third of our budget is directly related to the war against drugs.

TAX REVENUE

Mr. ROYBAL. All right. Now on the overall, how much revenue does ATF generate each year?

Mr. HIGGINS. We collect over $10 billion in taxes. Dan, what was the figure for last year?

Mr. BLACK. $10.2 billion.

Mr. ROYBAL. And can that be reduced to how much more per dollar spent results in as additional revenue? Have you got that figure?

Mr. HIGGINS. We have a figure which shows how much revenue we collect per hour expended. Are you asking if we were to put more people on it, could we generate more?

Mr. ROYBAL. If you spent a dollar, how much revenue is collected?

Mr. HIGGINS. We will provide you that.

[The information follows:]

In FY 1989, total collections were $10.23 billion; while costs for our Compliance Operations Alcohol and Tobacco Programs were $51.81 million. The revenues generated for each dollar spent equal $197.45.

NARCOTICS TEMPTATIONS

Mr. ROYBAL. I would like to get that information, because I think we can use that. The other thing is that we realize a lot of dollars come in, and that the traffic in narcotics creates a lot of temptations. I happen to have known an agent, and knew him since he was a little kid in the karate class. He must have been 8–10 years old, and he showed promise of being one day a world champion. He became a world champion in karate. I also wrote a letter for him when he wanted to go become an agent for character reference.

But he went wrong, and he got involved in the trafficking of narcotics. And I do not know what has happened to him. But the situation is that it is tempting, and the question is how much of a problem do you have of your own agents being involved in this?

Mr. HIGGINS. We recognize that the problem exists in the law enforcement community. We believe that the problem is not in this agency like it may be in some others. Maybe it is because other agencies are spending even more of their time in seizing larger amounts of drug money.

We have recently started our drug testing program. We will be able to get some idea as to whether or not we have a drug user problem. I believe we do not, but then sometimes we are the last to know rather than the first to know.

Mr. ROYBAL. I am not referring just to the use of narcotics by the agents. Another problem is that narcotics dealers bribing the agents into being involved in taking money and turning his back on a particular problem so that the drug trafficker gets away with it. This is the kind of involvement I am talking about. To what extent do you have a problem?

As I tried to explain to you, I knew one personally. And if a kid like that can get into that particular situation, I can assure you it is very tempting for anyone, any human being to also get into it. So the question is, do you have a problem?

Mr. HIGGINS. We do not think we do, but we are also making sure that any allegation we get that is in any way indicative of a problem is investigated to conclusion. We train our supervisors in awareness so they can recognize the warning signs of drug pay offs. For example, either they have a lifestyle change or they live beyond their means. We also look at assignments.

We are doing the things that we reasonably can to avoid this problem, but we never know what happens to a person that turns around in such a dramatic way. We just have to be alert.

Mr. ROYBAL. All right. Very specifically, do you have an ongoing program that actually looks into the living pattern of agents under your jurisdiction.

Mr. HIGGINS. No, sir. None other than supervisory training where we ask our people to be alert.

Mr. ROYBAL. Because in this one case, without mentioning names that I am referring to, it must have been quite obvious several years ago that his lifestyle was such that he could not have been able to afford that had he been living only on his salary. And what about the other agents? How do they live? Do you have any ongoing program that looks into this situation? I hate to see a situation where one is spying on all agents and all individuals in the service. But I think that a spot check perhaps would be in order. Do you have such a program?

Mr. HARTNETT. We do not have anything like that at this time. We have checks and balances for anybody who has excessive indebtedness or runs up credit cards or that type of thing.

Mr. ROYBAL. But if they are getting cash, they do not use a credit card. They have the cash to buy all kinds of things, so I do not think that is——

Mr. HIGGINS. We do not have any programs specifically directed to cash spending but let me respond later for the record.

[The information follows:]

In light of what you are saying, we are looking into this matter. The Bureau does not have any program specifically designed to determine if any employee is "living above his/her means," possibly as a result of official corruption. We are aware of the risks and vulnerability as the Bureau becomes increasingly involved in narcotics-related crimes and investigations.

At the present time, our efforts to prevent acts of corruption include an indepth background investigation of all agent applicants, including drug testing and credit checks; and five (5) year updates on background investigations, including credit checks.

Responsibility for maintaining the highest standards on integrity is emphasized at all New Agent Training classes at FLETC. The Office of Internal Affairs (OIA) also addresses each First Line Supervisory Training Class. The supervisory responsibility to prevent and detect possible wrongdoing or criminality is emphasized at the training. We feel that if an employee maintained a lifestyle which was not proportionate

with his/her income, the first level supervisor would most probably become aware of it. The supervisor would be required to report that suspicion to OIA, the office with sole responsibility for investigation of possible or suspected wrongdoing. This topic will be specifically addressed by OIA personnel at all future supervisory training classes.

Also, OIA conducted a review of evidence collection and safekeeping requirements for narcotics and narcotics-related evidence, at the request of the Office of Law Enforcement. Risks and vulnerabilities were examined and Law Enforcement adopted stringent evidence collection standards for narcotics and narcotics-related contraband. One safeguard adopted was the virtual elimination of the possibility that one special agent, acting alone, would seize or collect narcotics or currency in connection with enforcement activities.

OIA continually advises ATF management of all situations which might contribute to integrity violations.

Mr. ROYBAL. All right. And I am not recommending that you put such a program in place. But I do recommend that you come up with some kind of plan that would make it possible for you to detect any violation of laws. I think we have asked all the important questions. There are other questions that other Members of the committee will be submitting in writing, and we will ask you to respond to them as soon as possible.

Mr. HIGGINS. Thank you. We appreciate the opportunity to testify before your Committee.

Mr. ROYBAL. I thank you very much. And the meeting is adjourned.

[Questions and answers for the record and the justifications follow:]

QUESTIONS SUBMITTED BY REPRESENTATIVE EDWARD R. ROYBAL

PROVIDING ATF WITH COMPUTER CAPABILITY
TO ANALYZE GUN TRACING REQUEST FORMS

Last year, Cox Newspaper's Washington Bureau used a computer to analyze over 42,000 gun tracing requests received by ATF from local, State, and Federal law enforcement agencies for the period of January 1, 1988 - March 27, 1989. The resulting study provided a detailed picture of the types, numbers, and locations of the weapons used by drug and arms traffickers, organized crime, terrorists, street gangs and other violent criminals. The Cox Study has been useful to policy-makers and it would seem that a similar analysis would help ATF and other law enforcement agencies to target their law enforcement efforts.

Mr. Roybal: Does ATF presently have the computer capability to compile and analyze its gun trace request forms in this manner?

Mr. Higgins: At present, the National Tracing Center (NTC) is in the process of converting the existing database to a new configuration. This process, when completed in June 1990, will provide ATF with the capability to compile and analyze firearms trace statistics as far back as 1986. Some of the data from 1986 to 1988 is limited due to computer entry problems which occurred in those years.

Mr. Roybal: Would detailed information on the types, numbers, and locations of firearms used in crime be helpful to ATF in targeting its law enforcement resources toward specific criminal groups, types of crime, States, and metropolitan areas?

Mr. Higgins: The information currently being received by ATF from our own field agents, other law enforcement agencies, and firearms trace forms is sufficient for us to determine in which areas to concentrate our resources.

Mr. Roybal: Cox Newspapers estimated that it cost approximately $10,000 to do its study, which included hiring temporary personnel and renting a mainframe computer to compile the data and paying a data processing firm to tabulate it. What would be the total appropriation needed in FY 1991 for ATF to computerize and analyze its gun tracing data and report to Congress?

Mr. Higgins: ATF has recognized the need to enhance the firearms tracing database and has acquired the services of a research corporation to convert the present database into a relational database management system. This will allow ATF to analyze its firearms tracing data and provide prompt, up-

to-date responses to inquiries from Congress. ATF has allocated approximately $90,000 in funds to facilitate the modernization, conversion, and expansion of its present database. It is anticipated that this enhancement will be completed and operational before the end of FY 1990.

Mr. Roybal: Would provisions of the FY 1990 Treasury Appropriations law and the Gun Control Act of 1968 which prohibit the consolidation or centralization of the records of firearms licensees prohibit ATF from computerizing and analyzing gun tracing data?

Mr. Higgins: ATF does not now maintain, nor is it our intention to develop, any computer database derived from the records of firearms licensees which is not authorized by statute through delegation to the Secretary and the Director in conjunction with the administration of the firearms laws. We do, however, computerize the statistical data related to the results of trace information.

APPROPRIATIONS FOR PROJECT ACHILLES

Recognizing that drugs and firearms go hand in hand, ATF created Project Achilles in 1987, a highly successful initiative which utilizes the mandatory and enhanced criminal penalty provisions of the Gun Control Act to prosecute repeat offenders and drug traffickers who use firearms in the commission of their crimes. Section 924(e) mandates a minimum penalty of 15 years imprisonment without parole for gun-carrying criminals who have three previous felony convictions. Section 924(c) mandates a minimum five years imprisonment for the first offense and 10 years for the second offense for a person who uses or carries a firearm in the commission of a Federal crime of violence or drug trafficking offense.

Mr. Roybal: The FY 1990 Treasury Appropriations law specified that a minimum of 692 FTE positions must be allocated for the Armed Career Criminal Apprehension Program. What is ATF's present staffing level for this Program?

Mr. Higgins: ATF's staffing level for the Armed Career Criminal Program in FY 1990 is 777 FTEs.

Mr. Roybal: The President's FY 1991 budget requests a total of $126 million for ATF's Law Enforcement Firearms Programs, including Project Achilles. If Congress appropriated that amount, how much would be allocated to the Project Achilles Program? How many FTEs within the Project Achilles Program would the President's request support? Can you estimate how many armed career criminal cases would be initiated and prosecuted under this request?

Mr. Higgins: Of the $126 million for ATF's Law Enforcement Firearms Program, $56.8 million would be allocated to Project Achilles.

The President's request will support 650 FTEs for Project Achilles within ATF's Law Enforcement Firearms Program.

We estimate that approximately 4,271 armed career criminal investigations would be initiated under this request.

Mr. Roybal: When ATF submitted its budget request to OMB, what was the total amount ATF requested for its Law Enforcement Firearms Program and how much of that total would have been allocated to Project Achilles? How many FTEs within the Project Achilles Program would that request support? Can you estimate how many armed career criminal cases would be initiated and prosecuted under this request?

Mr. Higgins: ATF's OMB submission included $141 million in the Law Enforcement Firearms Program. Of that amount, $68.5 million would have been allocated to Project Achilles.

The OMB request would support 788 FTEs for Project Achilles in the Law Enforcement Firearms Program.

Under this request, ATF could initiate 5,177 armed career criminal investigations.

Mr. Roybal: If ATF had $10 million above the President's budget request for the Project Achilles Program, how many more armed career criminal cases could be initiated and prosecuted? How many FTEs would that Appropriation support? Please estimate the number of Project Achilles cases ATF could initiate and prosecute and the number of FTEs that would be supported if it had $20 million above the President's request, if it had $30 million.

Mr. Higgins: Our Armed Career Criminal Program is based upon compliance inspections and law enforcement investigations. The Bureau fully supports the President's efforts in deficit reduction and the President's Drug Budget and Strategy which includes an increase in ATF's drug funding. However, with an additional $10 million above the President's request, the Bureau could initiate 3,375 more inspections, 526 additional armed career criminal investigations and it would support 120 additional FTEs for Project Achilles.

An additional $20 million above the President's request would support 240 FTEs and would result in the initiation of an additional 6,750 inspections and 1,051 armed career criminal investigations.

An additional $30 million above the President's request would support an additional 360 FTEs and would result in the initiation of an additional 10,125 inspections and 1,577 armed career criminal investigations.

ILLEGAL ARMS EXPORTS

At the February 15, Drug Summit in Cartagena, Colombia, President Bush and the Presidents of the four Andean nations signed an agreement establishing a broad framework for fighting the war on drugs. One provision called for strengthening controls over the movement of illegal weapons from the U.S. to the drug trafficker.

Mr. Roybal: What specifically is the Administration planning to do to stem the flow of illegal arms exports to the Andean nations?

Mr. Higgins: In June 1989, ATF detailed two special agents to Colombia for 30 days. The purpose of the detail was to assess the extent to which American firearms are being used in crimes of violence in Colombia, and to instruct the Colombian police and military officials as to the proper procedure for requesting traces of recovered weapons. The agents made contact with numerous Colombian officials directly involved with firearms and explosives seizures, and made inquiries with various U.S. entities in Colombia.

Based on our analysis of information gathered during this assignment, we believe that a great many firearms are being exported illegally from the United States to Colombia and that these firearms are ending up in the narcotics trafficking trade and terrorist activities.

To effectively impact on this illicit activity, it is of prime importance to have accurate and up-to-date intelligence. To obtain this, ATF must maintain close liaison with Colombian law enforcement authorities and with other U.S. agencies operating in Colombia.

ATF is proposing to establish a permanent presence in Colombia with the posting of a special agent there and has a standing request with the State Department to do so.

STOLEN FIREARMS

The Gun Control Act makes it unlawful to transfer, sell, transport, or use as collateral, stolen firearms and ammunition. In addition, ATF regulations require the theft or loss of machineguns, and short-barrelled rifles and shotguns (NFA firearms) to be immediately reported to ATF with detailed information about the theft. Stolen handguns, rifles, and shotguns are to be reported to local police and the firearms dealer must enter "stolen" and the date on his firearms records.

Mr. Roybal: Is it true that Federal firearms licensees are not required to report the theft of non-NFA firearms to ATF? What about firearm manufacturers and wholesalers? Are they required to report thefts to ATF?

Mr. Higgins: The thefts of handguns, rifles and shotguns are to be reported to local police officials. Stolen NFA firearms are to be reported immediately upon discovery of the theft or loss to local police officials and to the National Firearms Act Branch of ATF in Washington, DC.

The Gun Control Act of 1968, as amended, and the Federal firearms regulations require the theft or loss of NFA firearms to be immediately reported to ATF.

However, Federal firearms dealers, wholesalers, and manufacturers are only required to report the theft or loss of handguns, rifles, and shotguns to their local police department.

The Federal firearms licensees must enter the date of the theft in their firearms records. The statute specifically states that a Federal firearms licensee is not required to submit any reports or information to the Secretary except as expressly required by provisions of Chapter 44 of the Gun Control Act of 1968.

Mr. Roybal: If stolen firearms are used by criminals in disproportionately high numbers, doesn't it make sense to require firearm manufacturers and licensees to report stolen firearms to ATF in order to facilitate the tracing of the firearm and the investigation and prosecution of the crime?

Mr. Higgins: Yes. The criminal misuse of stolen firearms is a steadily increasing problem realized by law enforcement agencies throughout the United States. Each year tens of thousands of firearms are stolen from private citizens and Federal firearms dealers and manufacturers. In 1987, the National Crime Information Center (NCIC) entered 256,028 stolen firearms into their computer system. The figure increased to 261,141 stolen firearms in 1988. During 1989, NCIC recorded 263,236 stolen firearms. Stolen firearms are being recovered at

the scenes of violent crimes. In addition, stolen firearms are bartered for narcotics, as well as being recovered from narcotics traffickers. They are also smuggled out of the United States for use by the criminal element in foreign countries.

Mr. Roybal: Does ATF or any other Federal agency maintain records or a database on stolen firearms?

Mr. Higgins: ATF maintains extensive records on firearms reported lost or stolen from interstate shipments. The FBI maintains a data base in NCIC containing information on all firearms reported stolen.

Mr. Roybal: What changes in the law, if any, would ATF recommend to facilitate the reporting and tracing of stolen firearms?

Mr. Higgins: Under current law, mere possession of stolen firearms does not constitute a Federal crime. Presently, a violation of this statute can be prosecuted only when the firearms constitute a part of a stolen interstate shipment. It is suggested that legislation be initiated to amend 18 U.S.C. section 922(j) to address the commerce nexus for transportation, receipt, or disposition of stolen firearms. The amendment could provide that the commerce element is established by proof that the firearms had at any time moved in interstate commerce.

ILLEGAL PURCHASE OF FIREARMS

One of the most common methods used by criminals to obtain firearms is the strawman or straw purchaser method in which the criminal has a qualified third party buy the firearm for him. ATF recently testified that this is a common method by which the drug cartels have obtained U.S. made assault weapons.

Mr. Roybal: What initiatives or programs does ATF have to identify and prosecute straw purchasers?

Mr. Higgins: ATF employs and encourages several separate avenues to identify straw purchasers. Compliance inspectors are alert to any evidence of "straw purchases" when inspecting the records of licensed firearms dealers. Any suspicious transactions are referred to ATF Law Enforcement. Compliance Operations personnel remind dealers through the Firearms Newsletter and through inspection contacts what constitutes a strawman or straw-purchaser sale and advises them of the illegality of such transactions.

Federal Firearms Licensees (FFL) are encouraged to report any suspected occurrences of straw purchases. This is accomplished through the use of community-based firearms seminars that address, among other issues, the concerns associated with the straw purchase. Another avenue is through the use of multiple sales reporting forms. This form, ATF F 3310.4, is

generated by the FFL in compliance with Title 27 CFR Part 178.126a, which requires the FFL to report the sale of two or more pistols or revolvers to an unlicensed individual during any 5 consecutive business days. Analysis of these forms provides information on multiple purchases of handguns by any one person. This information is used for investigative leads in domestic and international trafficking investigations.

The prosecution of straw purchasers is accomplished through the use of several different statutes: Title I of the Gun Control Act of 1968, Chapter 44, Section 922 (a)(6), provides for the punishment of an individual who, during the acquisition of a firearm, knowingly provides false information or misrepresents any fact material to the lawfulness of the sale. Section 922 (m) provides for the punishment of the licensee if he knowingly makes false entry in any record he is required to maintain. Prosecution can also be accomplished through the use of Title 18 Section 2, aiding and abetting, and Title 18, Section 371, conspiracy.

Mr. Roybal: If ATF had additional resources, more inspectors in its Compliance Operations Firearms Program for example, could it more effectively crack down on straw purchasers and the criminals who utilize this method?

Mr. Higgins: Yes, and this is a major reason that the ATF FY 1991 Budget request for Firearms Compliance Operations includes an increase of $1.8 million and 30 FTE over the FY 1990 level. This increase will allow us to perform a greater number of inspections in order to identify more straw purchase transactions and to increase our support of Law Enforcement activities.

QUESTIONS SUBMITTED BY REPRESENTATIVE BILL LOWERY

METHAMPHETAMINE LABORATORIES AND ILLEGAL WEAPONS

Mr. Lowery: There is a serious and growing methamphetamine problem in San Diego and the Southwest, and the methamphetamine cookers are known to maintain large arsenals of firearms and explosives. Please outline your current efforts with other Federal and State agencies to combat this drug and weapons problem. Can you recommend any additional measures to address the threat of the methamphetamine trade?

Mr. Higgins: ATF's enforcement of the Federal firearms and explosives laws gives an added dimension to law enforcement's efforts against methamphetamine laboratories. ATF is promoting this enforcement role by participating in 11 regional task forces designed to combine the resources of Federal, State, and local agencies to identify, target, and prosecute those individuals or groups operating methamphetamine laboratories. In FY 1989, ATF participated in the investigation of 245 clandestine narcotics laboratories.

ATF's involvement in methamphetamine laboratory investigations is relatively recent. However, we are aware of the considerable hazards presented by the careless storage of chemicals and the sensitivity of the explosive mixtures at these laboratories. In an effort to ensure a safe and thorough investigation, ATF has proposed specific, specialized training for select ATF personnel to readily identify narcotics laboratories and to recognize certain hazardous materials associated with the laboratories.

The State of California, a haven for methamphetamine cookers, estimates that firearms are recovered from methamphetamine labs 90 percent of the time. Therefore, ATF's presence in this type of investigation is needed.

Mr. Lowery: Is there a follow-on program to your "Crankcase" operation?

Mr. Higgins: Presently, there are no known large-scale operations of this type in the southern California area; however, many off-shoot investigations emanated from "Operation Crankcase."

EFFECT OF AUO OVERTIME AND PAY RAISE ON ATF BUDGET

Mr. Lowery: How has ATF dealt with the increased costs resulting from the new Administratively Uncontrollable Overtime (AUO) legislation, as well as the added costs of the Federal pay raise?

Mr. Higgins: Public Law 101-173, revised the calculation of premium pay for administratively uncontrollable overtime (AUO) duty performed by law enforcement personnel. The law increased the limit on maximum basic pay for purposes of computing AUO. The new AUO provisions become effective after September 30, 1990; the start of the new fiscal operating year.

Both the AUO and pay raise legislation create mandatory costs which are budgeted to be offset by reduced staffing in FY 1991. It should be noted that Treasury and the Office of National Drug Control Policy are currently negotiating on the AUO funding issue with the view toward using the special forfeiture fund to partially offset the impact of the absorptions.

Mr. Lowery: Are positions or programs being cut?

Mr. Higgins: The Law Enforcement Firearms Program for FY 1991 has been reduced by 122 FTE positions and $5.99 million for the full year cost absorption of AUO.

The Law Enforcement Explosives Program has been reduced by 29 FTE positions and $1.54 million for absorption of half of the proposed FY 1991 pay raise, and it represents the Law Enforcement Activity share.

The Compliance Operations Firearms Program has been reduced by 18 FTE positions and $0.8 million in FY 1991 for absorption of the Compliance Operations Activity share of the proposed FY 1991 pay raise.

QUESTIONS SUBMITTED BY REPRESENTATIVE STENY H. HOYER

BUDGET LEVEL

	FY 80	FY 90	FY 91 REQUEST
AMOUNT:	$142,892	$257,565+$10M (DRUG BILL)	$275,284
FTES:	3,809	3,706	3,706

Mr. Hoyer: First, I am glad to see that the President did not recommend any overall reduction (there are some reductions in some accounts) in ATF personnel this year. It is interesting to note, however, that we have still not returned to the level that ATF was at in 1980 in terms of personnel, after ATF's account was savaged by the Reagan Administration. The Treasury Postal Committee is responsible for Appropriating over $72 million more than the President requested between 1985 and 1989 - keeping this critical Law Enforcement Agency alive - and unfortunately, we are still at a reduced level from 1980. I think it is important for the record to reflect the facts in this case.

I am concerned that the budget request proposes cutbacks in the areas of Alcohol Compliance (51 FTEs) and in Explosives area (32 FTEs). What impact will these cuts have on these efforts?

Mr. Higgins: In the area of Alcohol Compliance, the reduction of 51 FTEs will be applied to enforcement of the Federal Alcohol Administration Act (FAA Act). Specifically, cost savings will occur by conducting 700 fewer inspections in the subprograms of qualification, product integrity and market integrity activities; and by restructuring the SOT tax system.

The Administration's savings proposal is based on better targeting of investigative resources and a more self regulating industry, since it is expected that important problems will be reported by the industry and follow-up provided only for high probability violations.

In the area of Explosives, the loss of FTEs will result in 66 fewer cases initiated, with a resultant loss of 30 defendants recommended for prosecution for acts associated with the criminal use of explosives and explosive devices.

Mr. Hoyer: As you know, a Maryland Judge was the target of a letter bomb. What role has ATF played in that investigation?

Mr. Higgins: ATF assistance was requested after a parcel bomb injured Judge John P. Corderman. The responding ATF agents assisted in the bomb scene investigation. ATF's laboratory examined the bomb debris and the undetonated device. An explosives enforcement officer prepared a full scale model of the device. In addition, ATF has provided agents on a daily basis to

conduct interviews, follow leads, and eliminate suspects. As a result of continuing investigative efforts, the list of suspects has been reduced to a manageable level.

Mr. Hoyer: Is there an increase or decrease in the level of criminal activity involving explosives that would justify a reduction in effort?

Mr. Higgins: The statistics for FY 1989 reveal a 27 percent increase over the number of bombings reported in 1988. However, the reduced staffing level in the Explosives program was predicated upon the need to absorb increased costs associated with new Administratively Uncontrollable Overtime (AUO) legislation and the Federal pay raise, not by a change in the amount of explosives-related criminal activity.

Mr. Hoyer: ATF Alcohol Compliance uncovered the "Anti-Freeze Wine" two years ago. How many less inspections will be done as a result of the reduction in this area, and what is the probability factor increase that problems like the poisoned wine will be left uncovered as a result of this reduction?

Mr. Higgins: As a result of the reduction, 700 fewer inspections will be conducted in the areas of qualification, trade practices, and product integrity. The probability of increased violations, if any, resulting from this reduction is impossible to predict. However, every year we discover, through our inspection and testing efforts in the product integrity program, alcoholic beverages with contaminants such as diethylene glycol in wine, methanol in imported wines, cancer causing ingredients in distilled spirits, and pesticides in imported products.

EXPLOSIVES IDENTIFICATION

Mr. Hoyer: Last year, the Treasury/Postal Bill included language prohibiting funding for Explosives Identification or Detection Tagging Research or Implementation. In light of the recent increase in mail bombings, would this research and implementation be helpful in investigating and prosecuting these criminals who make these bombs?

Mr. Higgins: The detection of explosive devices prior to destruction of life and property is the ultimate goal of all law enforcement agencies involved in the investigation of bombing incidents. Once a bomb has detonated, valuable evidence may be lost or destroyed, greatly increasing the difficulty of identifying and prosecuting the perpetrator. ATF believes that research for and development of detection equipment, coupled with the identification of chemical additives designed to make explosives more detectable, is critical to a successful battle against the criminal use of explosives.

Mr. Hoyer: What is the Administration's position on striking this language and what do you believe about Explosives' Identification or Detection Tagging Research?

Mr. Higgins: It is clear that the Administration supports research for and development of detection equipment as well as research into the identification and implementation of chemical additives or markers for detecting plastic explosives. This is evident from the support the U.S. State Department and the Federal Aviation Administration have provided the International Civil Aviation Organization in its efforts to identify a universal additive for the detection of plastic explosives. These initiatives were brought about by the tragic bombing of Pan Am Flight 103. As a result of this incident, countries realized that it is extremely difficult to apply effective countermeasures to prevent such acts, as there are no reliable methods for detecting plastic explosives.

The United States has played an active role in attempting to identify an acceptable chemical additive or marker to be used worldwide in the manufacture of explosives.

Because of the legal constraints placed on ATF in the language of an appropriation bill, we have not participated in this effort. We have, however, followed its progress, which appears to be headed for the passage of an international treaty requiring countries to introduce an additive during the manufacture of plastic explosives. This progress notwithstanding, ATF believes that significant research and development remains to be done in the explosives detection field.

SEMIAUTOMATIC ASSAULT WEAPONS

Mr. Hoyer: Last year, July 7, 1989, ATF announced a permanent ban on the importation of 43 types of semiautomatic assault rifles. This ban was based on the fact that these rifles have no sporting purpose as required in statute.

Why were domestic made semiautomatic weapons not banned as well?

Mr. Higgins: The "sporting use" criteria required under the Gun Control Act of 1968 only apply to the importation of firearms. The criteria do not apply to the domestic manufacture of weapons. However, it should be noted that a domestically produced firearm which was exported and which does not meet the "sporting use" criteria would not qualify for importation, if anyone other than the domestic owner (having proof of ownership) attempts to bring the firearm back into the United States.

The recent banning of semiautomatic assault weapons was based on provisions of existing law. We have no additional statutory authority to ban or restrict firearms. The only other firearms subject to restrictions are weapons defined by the National Firearms Act (i.e., silencers, machineguns, etc.)

Mr. Hoyer: What impact has the ban had on criminal use of semiautomatic assault rifles?

Mr. Higgins: The Administration's ban on imported assault rifles went into effect less than a year ago with the initiation date of March 14, 1989, and an expanded list of banned imported assault rifles was issued on April 5, 1989. The permanent ban went into effect July 7, 1989.

The prohibition on the importation of semiautomatic assault-type rifles has been in effect for a very short time. Prior to the ban, thousands of assault-type rifles were imported into the United States. In addition, it is estimated that two-thirds of the assault-type rifles presently owned by U.S. citizens are manufactured in the United States and not subject to the ban. Due to the short amount of time that has passed since the implementation of the ban and the number of assault-type rifles already in domestic channels, the effects of the ban, as it relates to violent crime, cannot be determined.

Mr. Hoyer: The Uzi Carbine and the HK-94 assault rifle were banned. However, the Uzi Pistol and HK-94 Pistol are still allowed to be imported. Why is this? Aren't these weapons actually more dangerous for criminal purposes in that they are easily concealable, and can wreak as much mayhem as the banned weapons? What is the difference in these weapons that one is

banned but the other, more dangerous weapon is not?

Mr. Higgins: Since the 1968 Gun Control Act was enacted, a provision was instituted factoring imported handguns with a numerical rating in order to determine the suitability of the handgun for importation. Both the Uzi pistol and the HK-94 pistol exceed the minimum criteria necessary for importation.

The Uzi pistol and the HK-94 pistol are no more dangerous than the assault rifles. The Uzi and HK-94 pistols are more concealable than an assault rifle; however, they are larger, heavier, and less concealable than current large-capacity, 9-mm pistols. Thus, the Uzi and HK-94 pistols are no more dangerous than the high-magazine-capacity, 9 mm semiautomatic pistols currently manufactured domestically.

Mr. Hoyer: Can ATF ban these weapons or is legislative action required?

Mr. Higgins: Legislative action is required to ban these weapons.

Mr. Hoyer: I empathize with you as Director, because I know you went up against a lot of tough conservative opponents in the Administration on imposing last year's ban. And you may need to watch your back because of your bold and courageous stance on this issue. But have you considered such a ban?

Mr. Higgins: Currently, the Administration does not have the statutory authority to impose any further restrictions on these types of firearms. However, Hand Gun Control, Inc., has petitioned us to consider a ban on the importation of semiautomatic handguns. This request is being reviewed.

Mr. Hoyer: A recent Cox Newspaper Study found that 2/3rds of assault guns are manufactured domestically. Oakland Police also report that of the 1988, 214 assault weapons seized, only 12 percent were obtained illegally - the others were bought over the counter, legally. The Cox Study also found that though semiautomatic assault weapons make up only .5 percent of firearms in circulation, they make up 30 percent of firearms traced to organized crime or terrorist crimes in the U.S. in 1988.

Are the statistics quoted fairly accurate? Does ATF keep records of guns seized in crimes? What is the break out of illegal vs. legally purchased semiautomatic assault weapons in crimes nationwide?

Mr. Higgins: The quoted statistics relating to the acquisition of semiautomatic assault weapons are accurate in that most semiautomatic weapons are purchased legally in the United States. Also, in Fiscal Year 1988, ATF traced 3,977 assault weapons. Of that amount, 162 were traced to organized crime and 135 were traced to terrorist groups. Therefore, approximately 7

percent of the assault weapons traced went to these groups. This actual figure is far less than the 30 percent quoted in the Cox newspaper study.

ATF does not keep records of firearms seized in crimes.

ATF cannot summarize the legal versus illegal acquisition of semiautomatic assault weapons because we do not collect that information.

Mr. Hoyer: How much of a crime problem are semiautomatic assault weapons?

Mr. Higgins: Presently, there are no statistics being maintained regarding assault-type weapons recovered in crimes in the United States. Most law enforcement agencies, including ATF, maintain statistics by three major categories: rifles, shotguns, and handguns. Since the majority of assault-type weapons are classified as rifles or handguns, they are recorded as such.

ATF does not maintain statistics on the total number and types of firearms recovered by other agencies. However, our own recoveries of high-powered firearms appear to indicate the assault-type firearm is being encountered more and more by our agents.

A general consensus of the law enforcement community reflects that the narcotics trafficker, as well as other violent criminals, are arming themselves with these assault-type weapons.

Mr. Hoyer: Can you distinguish between these types of weapons and legitimate hunting weapons?

Mr. Higgins: These weapons can be distinguished only by military features; for example, the ability to accept a large detachable magazine, folding or telescoping stock, flash suppressors, bayonet, pistol grip, and so forth. The mechanical functions of all semiautomatic firearms, hunting or otherwise, are basically the same. These features and characteristics are as follows:

I. Military Configuration

a) Ability to accept a detachable magazine. Virtually all modern military firearms are designed to accept large, detachable magazines. This provides the soldier with a fairly large ammunition supply and the ability to rapidly reload. Thus, large capacity magazines are indicative of military firearms.

b) Folding or Telescoping stocks. Many military firearms incorporate folding or telescoping stocks. The main advantage of this item is portability, especially for airborne troops. These stocks allow the firearm to be fired from the folded position, yet it cannot be fired nearly as accurately as one with an open

stock. With respect to possible sporting uses of this feature, the folding stock makes it easier to carry the firearm when hiking or backpacking. However, its predominant advantage is for military purposes. It is normally not found on the traditional sporting rifle.

c) Pistol Grips. The vast majority of military firearms employ a well-defined pistol grip that protrudes conspicuously beneath the action of the weapon. In most cases, the "straight line design" of the military weapon dictates a grip of this type so that the shooter can hold and fire the weapon. Further, a pistol grip can be an aid in one-handed firing of the weapon in a combat situation. Further, such grips were designed to assist in controlling machineguns during automatic fire.

d) Ability to accept a bayonet. A bayonet has distinct military purposes. First, it has a psychological effect on the enemy. Second, it enables soldiers to fight in close quarters. We know of no traditional sporting applications for a bayonet.

e) Flash suppressor. A flash suppressor generally serves one or two functions. First, in military firearms, it disperses the muzzle flash when the firearm is fired to help conceal the shooter,s position, especially at night. A second purpose of some suppressors is to assist in controlling the "muzzle climb" of the rifle, particularly when fired fully automatic.

f) Bipods. The majority of military firearms have bipods as an integral part of the firearm or contain specific mounting points to which bipods may be attached. Bipods are available primarily in long-range shooting to enhance stability. However, traditional sporting rifles do not come designed to accommodate them.

g) Grenade launcher. Grenade launchers are incorporated in the majority of military firearms as a device to facilitate the launching of explosive grenades. We are not aware of any particular sporting use for grenade launchers.

h) Night sights. Many military firearms are equipped with luminous sights to facilitate sight alignment and target acquisition in poor light or darkness. Their uses are generally for military and law enforcement purposes and are not usually found on sporting firearms since it is generally illegal to hunt at night.

2. Whether the weapon is a semiautomatic version of a machinegun.

The vast majority of modern military firearms are selective fire; i.e., they can shoot either fully automatic or semiautomatic. Since machineguns are prohibited from importation (except for law enforcement use) the manufacturers of such weapons have developed semiautomatic versions of these firearms.

3. Whether the rifle is chambered to accept a center fire cartridge case having a length of 2.25 inches or less. Modern military assault rifles and submachineguns are generally chambered to accept a center fire cartridge case of 2.25 inches or less.

PROJECT ACHILLES IN THE WASHINGTON METROPOLITAN AREA

Mr. Hoyer: Last year, agents in the Achilles Task Force had to be reduced in the Washington metropolitan area due to funding shortfalls. With the funding provided for FY 90, will these agents be restored?

Mr. Higgins: We believe this question is referring to the Armed Criminal Enforcement Study (ACES) which ATF conducted in Washington, DC. This project was initiated in order to identify and define the best investigative concepts for combatting violence and narcotics trafficking in the Nation's urban areas. The Washington ACES taskforce was always intended as a short-term experiment. As a result of this study and additional funding, the Bureau is establishing eight new Project Achilles Task Forces to be located in major metropolitan areas across the country, including Washington, DC.

Mr. Hoyer: The Drug Task Force that ATF contributed the majority of personnel to in the D.C. area had an impact according to local officers that I have spoken with. They feel that the use of weapons during crimes and actual murder rates declined while ATF agents were on the streets. What do your statistics show? Was there a decrease in violent crimes and the use of guns during the commission of crimes in the District while the ATF Task Force was on the streets?

Mr. Higgins: The Armed Criminal Enforcement Study (ACES) Task Force became operational on March 1, 1989, and was terminated on July 31, 1989. During this 5-month period, the District of Columbia did realize a decrease in robberies and murders compared to the previous months. At the completion of ACES, the District observed an increase in both the murder and robbery rates.

It could be hypothesized that, as a result of ACES, those violent crime rates were reduced. It would be inappropriate for ATF to make a claim of directly causing a reduction in the District's violent crime rate since a myriad of other factors could also have been responsible for the reduction in the statistics. Additionally, the Metropolitan Police Department contributed significantly to the overall success of the ACES Task Force.

ACES did have an impact on the criminals themselves, as 191 were arrested. ACES recovered 94 firearms, and approximately $1 million (street value) in narcotics, thus removing a significant

amount of contraband from the streets of the District. These items and the individuals were definitely impacted by the task force.

Mr. Hoyer: When can we expect the Task Force to be fully operational in the District area this year?

Mr. Higgins: The Project Achilles Task Force in Washington, DC, will be fully operational by March 26, 1990. All of the new Project Achilles Task Forces will be operational on this same date.

Mr. Hoyer: Will the staffing levels equal last year's commitment? How many positions will be committed?

Mr. Higgins: ACES was a special study conducted to determine the best investigative approach for targeting armed career criminals. During ACES, the Bureau utilized a high concentration of resources which were dedicated for a shorter duration of time. The number of personnel dedicated to the new Project Achilles Task Force in Washington, DC, will be lower than the number utilized in the study; however, the commitment will be for a long-term.

There will be 13 positions dedicated to the new Project Achilles Task Force in Washington, DC.

Mr. Hoyer: The report on label fraud investigations covering the first quarter of FY 90 which you recently submitted to the Congress indicates a disturbing trend of tax evasion and fraud. Would you please expand upon your activities in this area?

Mr. Higgins: During our enforcement activities relating to fraudulent alcoholic beverage labeling in FY 1990, we investigated illegal activities related to: smuggling of alcoholic beverages into the United States to avoid payment of tax; importation of alcoholic beverages under falsified Certificates of Label Approval to avoid a higher excise tax rate; and importation of alcoholic beverages under falsified labels which create possible consumer deception and/or health hazards.

ATF has nearly completed a very complex fraud case involving significant, willful labeling violations. As a result of this investigation, the Federal Government has taken the following actions: seizure of 1,090 cases of wine and distilled spirits (Customs, accompanied by ATF); Notice to Show Cause for 21-day permit suspension (ATF); assessment of $900,000 liquidated damage charges (ATF referral to Customs); and referral to the Assistant United States Attorney for prosecution on criminal charges (Customs and ATF).

During ATF's Marketbasket Sampling Program, a product was determined to have been tax-paid at a lower, incorrect tax

classification. It was taxed as a still wine rather than as a sparkling wine, a difference of $2.23 per wine gallon. This underpayment of tax was found to be a problem throughout the bottling of the product. In July 1989, the bottler paid additional wine excise taxes of $26,188 and a $25,000 offer in compromise to resolve the problems.

Mr. Hoyer: Wouldn't the proposed staffing reductions limit your investigative capabilities in this area and increase the instances of tax evasion and cause other adverse effects?

Mr. Higgins: There is no reduction proposed in the Alcohol Law Enforcement program and the reductions proposed for Alcohol Compliance programs are directed toward the non-revenue subprograms of qualification, trade practices, and product integrity.

Mr. Hoyer: Mislabeled alcoholic beverages obviously deceive the consumer, but would you please expand upon the effect label fraud can have on revenue and health?

Mr. Higgins: Revenue is affected when the fraudulently labeled product is paid at a lower tax rate than it should, or is not taxpaid as an alcoholic beverage. Health problems occur when the fraudulently labeled product is consumed by people who are allergic to ingredients in alcoholic beverages.

As an example, ATF is currently investigating numerous imported ethnic products brought into the U.S. labeled as food products when they are actually alcoholic beverages. Consumers purchasing these products are not aware of this, and health problems could result. Obviously, these products would also not have the required health warning statement and would lack proper tax payment.

A similar situation occurs when a product is fraudulently labeled as a wine when it is really a much more potent distilled spirit. These situations with imported products also violate Customs laws and result in both excise tax and duty fraud.

A side benefit of these ATF investigations occurred recently when information discovered was referred to Customs and DEA resulting in a large seizure of drugs which were being smuggled into the country.

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1990

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	4,008	3,716	$257,565
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill	45	41	10,000
Sequestration (P.L. 99-177)	(56)	(51)	(3,494)
FY 1990 Authorized Level	3,997	3,706	264,071
Estimate for FY 1991	3,997	3,706	275,284

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in Thousands)

ACTIVITY	ACTUALS FY 1989 FTE	ACTUALS FY 1989 Amount	AUTHORIZED LEVEL FY 1990 FTE	AUTHORIZED LEVEL FY 1990 Amount	BUDGET ESTIMATE FY 1991 FTE	BUDGET ESTIMATE FY 1991 Amount	INCREASE OR DECREASE FOR FY 1991 TOTAL CHANGES FTE	TOTAL CHANGES Amount	PROGRAM CHANGES FTE	PROGRAM CHANGES Amount	OTHER CHANGES FTE	OTHER CHANGES Amount
1. Compliance Operations	1,321	70,829	1,345	81,896	1,323	78,755	(22)	(3,141)	(51)	(2,972)	29	2,321
2. Law Enforcement	2,285	166,387	2,361	184,665	2,383	196,529	22	11,864	(113)	(5,036)	135	16,900
Unobligated balance available, SOY	0	0	0	(2,490)	0	0	0	2,490	0	0	0	0
Unobligated balance available, EOY	0	2,490	0	0	0	0	0	0	0	0	0	0
Unobligated balance lapsing	0	506	0	0	0	0	0	0	0	0	0	0
Total appropriation, authorized level and budget estimate	3,606	240,212	3,706	264,071	3,706	275,284	0	11,213	(164)	(8,008)	164	19,221
Permanent positions	3,981		3,997		3,997		0		(164)		164	

Revised 2/12/90

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in Thousands)

	Activity 1 Compliance Operations			Activity 2 Law Enforcement			Total		
PROGRAM CHANGES:	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
1. Restoration of Base Staffing Reductions	20	18	1,036	36	33	2,458	56	51	3,494
2. GSA Space Rental	0	0	892	0	0	1,759	0	0	2,651
3. Information Systems (LE Firearms)	0	0	0	5	5	257	5	5	257
4. CO Alcohol Reduction	(56)	(51)	(3,900)	0	0	0	(56)	(51)	(3,900)
5. Program Reductions to Offset Pay Costs and Other Absorptions:									
-- LE Firearms (AUO/MCL)	0	0	0	(122)	(122)	(7,565)	(122)	(122)	(7,565)
-- LE Explosives (Pay raise/MCL)	0	0	0	(29)	(29)	(1,945)	(29)	(29)	(1,945)
-- CO Firearms (Pay raise/MCL)	(18)	(18)	(1,000)	0	0	0	(18)	(18)	(1,000)
TOTAL PROGRAM CHANGES	(54)	(51)	(2,972)	(110)	(113)	(5,036)	(164)	(164)	(8,008)
OTHER CHANGES:									
Adjustments Necessary to Maintain Current Levels:									
1. Annualization of FY 1990 Anti-Crime Initiative	35	35	1,457	150	150	12,765	185	185	14,222
2. Annualization of FY 1990 Pay Act Increases	0	0	387	0	0	994	0	0	1,381
3. Increased Cost for Proposed FY 1991 Pay Raise	0	0	1,249	0	0	3,213	0	0	4,462
4. Increased Costs for EX/SES pay raise (P.L. 101-194)	0	0	59	0	0	151	0	0	210
5. Increased Cost of Admin. Uncontrollable Overtime (AUO)	0	0	0	0	0	5,990	0	0	5,990
6. Increased Cost for Additional Compensable Day	0	0	172	0	0	444	0	0	616
7. Increased Cost of Health Insurance	0	0	180	0	0	695	0	0	875
8. Increased Cost of Workers' Compensation	0	0	90	0	0	349	0	0	439
9. Increased Cost of Other Benefits	0	0	51	0	0	195	0	0	246
10. Increased Cost of Travel & Transp. of Persons	0	0	126	0	0	485	0	0	611
11. Increased Cost of Transportation of Things	0	0	10	0	0	38	0	0	48
12. Increased Cost of Rent, Comm., and Utilities	0	0	12	0	0	47	0	0	59
13. Increased Cost of Printing and Reproduction	0	0	17	0	0	65	0	0	82
14. Increased Cost of Other Services	0	0	166	0	0	639	0	0	805
15. Increased Cost of Supplies and Materials	0	0	67	0	0	256	0	0	323
16. Increased Cost of Equipment	0	0	197	0	0	758	0	0	955
Subtotal, Adjustments Necessary to Maintain Current Levels	35	35	4,240	150	150	27,084	185	185	31,324

Revised 2/12/90

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in Thousands)

	Activity 1 Compliance Operations			Activity 2 Law Enforcement			Total		
	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount	Perm. Pos.	FTE	Amount
Reductions, Nonrecurring Costs and Savings:									
1. Nonrecurring Costs	0	0	(1,860)	0	0	(10,036)	0	0	(11,896)
2. A-76 Savings	(6)	(6)	(59)	(15)	(15)	(148)	(21)	(21)	(207)
Subtotal, Reductions, Nonrecurring Costs and Savings	(6)	(6)	(1,919)	(15)	(15)	(10,184)	(21)	(21)	(12,103)
TOTAL, OTHER CHANGES	29	29	2,321	135	135	16,900	164	164	19,221
Total Increases or Decreases Compared with FY 1990 Authorized Level	(25)	(22)	(651)	25	22	11,864	0	0	11,213

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SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATE

GENERAL STATEMENT

The mission of the Bureau of Alcohol, Tobacco and Firearms is:

- To reduce the criminal use of firearms and to assist other Federal, State, and local law enforcement agencies in reducing crime and violence by effective enforcement of the Federal firearms laws.
- To provide for the public safety by reducing the criminal use of explosives, combatting arson-for-profit schemes, and removing safety hazards caused by improper and unsafe storage of explosive materials.
- To assure the collection of all alcohol and tobacco tax revenues and ensure compliance with the alcohol and tobacco tax statutes.
- To suppress commercial bribery, consumer deception, and other prohibited trade practices in the alcohol beverage industry by effective enforcement and administration of the Federal Alcohol Administration (FAA) Act.
- To suppress illicit manufacture and sale of non-taxpaid alcohol beverages.

The Bureau's program objectives are as follows:

ALCOHOL AND TOBACCO PROGRAMS

- Ensure the collection of all payable taxes.
- Prevent organized crime or other unqualified applicants from obtaining permits to enter the alcohol and tobacco industries.
- Ensure an open, competitive market for alcohol beverages.
- Ensure consumer protection in the alcohol beverage products.
- Continue projects on regulatory reform and continue programs offering assistance to other agencies (both regulatory and law enforcement), industry, and the public.

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Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

FIREARMS PROGRAM

- Reduce illegal trafficking in firearms.
- Assist Federal/State/local law enforcement and regulatory agencies in reducing illegal trafficking in weapons, reducing firearms-related crime, and investigating firearms-related cases.
- Identify and investigate violence-prone individuals who use firearms in criminal acts.

EXPLOSIVES AND ARSON PROGRAMS

- Reduce criminal use of explosives.
- Ensure public safety regarding the storage of legal explosives.
- Reduce arson incidents.
- Assist Federal/State/local investigative and regulatory agencies in explosives/arson-related areas.

ACTIVITY 1: COMPLIANCE OPERATIONS

Compliance Operations enforces laws and regulations affecting the alcohol, tobacco, firearms, and explosives industries. Compliance programs are designed to ensure that all alcohol and tobacco excise taxes are collected and properly accounted for; to protect the public safety by ensuring the integrity of alcoholic beverages offered for sale; and to provide open, competitive markets for alcoholic beverages. Firearms and explosives programs support the Bureau's goals of protecting the public safety by reducing the criminal use of firearms and explosives and preventing the unsafe storage of explosives.

The field inspection program is responsible for the collection of excise taxes and the enforcement of alcohol, tobacco, firearms, and explosives statutes. The Compliance Operations program consists of on-site inspections and investigations conducted of persons and businesses in the various regulated industries, plus audit assistance to Law Enforcement in arson investigations. This field inspection program includes not only tax compliance inspections, but also inspections of firearms dealers, explosives storage facilities, and the securing of samples of alcoholic beverages for contaminant testing, all done to ensure public safety.

The FY 1991 Compliance Operations budget request reflects a net decrease of 22 FTE positions and $651,000. This amount includes restoration of base staffing reductions from FY 1990 of 18 FTE positions and $1,036,000; an increase of 35 FTE positions and $1,457,000 related to annualization of the FY 1990 Anti-Crime Initiative; an increase of $892,000 for additional GSA space rental requirements; an increase of $2,783,000 for other inflationary and pay increases; reductions of $1,860,000 for nonrecurring costs; reductions of 51 FTE positions and $3,900,000 in the Alcohol Program; reductions of 18 FTE positions and $1,000,000 in the Firearms Program to offset pay costs and other absorptions; and reductions of 6 FTE positions and $59,000 for productivity savings.

Program	FY 1989 FTE	FY 1989 Amount	FY 1990 FTE	FY 1990 Amount	FY 1991 FTE	FY 1991 Amount	Inc/Dec Over FY 1990 FTE	Inc/Dec Over FY 1990 Amount
1. Alcohol	920	50,000	874	52,208	821	49,606	(53)	(2,602)
2. Tobacco	33	1,811	31	1,877	31	1,898	-	21
3. Firearms	282	14,602	363	20,875	393	22,724	30	1,849
4. Explosives	86	4,416	77	4,446	78	4,527	1	81
Total	1,321	70,829	1,345	79,406	1,323	78,755	(22)	(651)

1. ALCOHOL

The Compliance Operations Alcohol Program ensures collection of alcoholic beverage excise taxes through field examinations and office reviews; provides for accurate depositing and accounting for excise taxes; prevents entry of criminals or other prohibited persons into the industry with a qualification program; protects public safety by ensuring the integrity of alcoholic beverage products; and provides an orderly marketplace so producers, distributors, and consumers can trade freely.

The tax compliance effort focuses on inspecting and auditing production facilities offering the greatest risk to revenue based on the volume of operations, past history of violations, poor internal controls, or questionable financial condition. In this manner, the program oversees the collection of $5.8 billion in excise taxes annually and protects $19 billion in bonded liabilities.

A special occupational tax (SOT) is assessed on certain businesses in the alcohol, tobacco, and firearms industries. The Bureau estimates that there are 200,000 delinquent special occupational taxpayers. ATF regional and area offices conducted a successful delinquent tax collection program which resulted in $36 million in additional taxes being collected in FY 1989. Collections of special occupational taxes are expected to remain about the same in FY 1990.

The qualification review and inspection process attempts to prevent prohibited applicants from entering the industry and screens out those who, if allowed entry, would unlawfully disrupt the industry. Field inspections are conducted for selected FAA Act and Internal Revenue Code applications. These inspections are tailored to the applicant's particular circumstances; for example, where laundering of drug money is suspected or where a prior criminal past has been identified by office review.

Market and product integrity inspections are conducted to enforce the FAA Act and protect public safety, including investigation of and follow-up on known domestic and international instances of contaminated alcoholic beverage products and label fraud cases. A program of product sampling and international cooperation is being maintained to prevent contaminated products from reaching the market. Other current product integrity efforts concentrate on wineries, focusing on appellation of origin and grape varietal designations. There is further emphasis on those entities which make interstate sales. A sampling program attempts to ensure compliance by manufacturers and distributors of both imported and domestic products. Beginning this year, field inspections will ensure compliance with the warning-label requirements of the Alcoholic Beverage Labeling Act.

National market integrity investigations are conducted of large companies when complaints are received from competitors; white-collar crime and public corruption incidents are also investigated. Regional ownership and control investigations help detect and deter illegal trade practices.

Operations in the international arena improve the market environment for domestic producers. Because ATF is recognized as a responsible and effective regulator, the Bureau has effectively contributed to interagency efforts in harmonizing regulations and lowering trade barriers.

During FY 1989, 13,101 inspections were conducted. This level of effort will be reduced in FY 1990 and FY 1991. The reduction is partially due to fewer short-term inspections following the FY 1989 enhanced SOT collection effort. A total of 9,800 inspections will be made in FY 1990 and 9,100 in FY 1991. Revenue collections are expected to total $5.7 billion in both FY 1990 and 1991.

The Compliance Operations Alcohol Program will be reduced by 51 FTE positions and $3,900,000 in FY 1991. This reduction is based on cost savings that will occur by conducting 700 fewer inspections in the areas of qualification, trade practices, and product integrity; and restructuring the SOT tax system. The SOT proposal will offer a more efficient collection system. In addition, the Administration is attempting to focus alcohol compliance on high priority activities. As a result, the proposed reduction is further based on better targeting of investigative resources and a more self-regulating industry, since it is expected that important problems will be reported and follow-up provided only for high probability violations.

Other proposed changes in the Compliance Operations Alcohol Program in FY 1991 include an increase of 12 FTE positions and $717,000 to restore base staffing reductions from FY 1990; a reduction of 6 FTE positions and $59,000 for productivity savings; a reduction of $1,095,000 related to nonrecurring ADP equipment costs from FY 1990; and a reduction of 8 FTE positions related to a redistribution of Bureau support positions among the programs.

2. TOBACCO

The Compliance Operations Tobacco Program ensures the collection of tobacco excise taxes through issuing permits and conducting inspections in the tobacco industry. In FY 1989, approximately $4.3 billion in excise taxes were collected. Tobacco collections for FY 1990 and 1991 are projected to remain at this level.

During FY 1989, 227 field inspections were conducted to verify qualification information submitted, check the proprietors' premises, and ensure tax compliance. In FY 1990 and FY 1991, 275 inspections are planned.

3. FIREARMS

The Compliance Operations Firearms Program conducts qualification and compliance inspections, processes applications, issues licenses, and provides support to Law Enforcement in their efforts to curb the illegal use of firearms.

The qualification process prevents entry into the business by anyone prohibited by the Gun Control Act of 1968. This is done by reviewing applications, checking criminal records and performing selected field inspections. The inspection program focuses on

assisting Law Enforcement in identifying and apprehending criminals who illegally purchase firearms. Inspectors also educate licensees in proper recordkeeping and business practices to improve the number of successful crime-gun traces and to avoid illegal sales and practices. Seminars involving large segments of the firearms industry are conducted in a cost-effective manner. They provide a regulatory presence in the firearms industry and provide dealers with information on their legal requirements. Feedback from the seminars has been very favorable.

Application and compliance activities also identify applicants or current licensees likely to divert firearms from legitimate trade to criminal use or whose history reveals a low level of compliance. Licensees such as pawnbrokers, manufacturers, importers and National Firearms Act (NFA) dealers are given extra attention in this program. Each region also develops annually, in a joint effort with Law Enforcement, specific strategies to address problems unique to their areas. Both the national and regional strategies also focus on the types of firearms which are most likely to be used by criminals, especially those involved in illegal drug activities. These weapons, so-called "weapons of choice," include paramilitary and automatic weapons.

During FY 1989, 89,210 applications were processed and 9,615 inspections were conducted. At the end of the fiscal year, there were 264,247 firearms licensees. In addition, there were 166,811 import/NFA applications and certifications processed.

During FY 1990 and 1991, it is estimated that 100,000 applications will be processed; and that 12,300 inspections will be conducted in FY 1990 and 13,400 in FY 1991. The total number of licensees is expected to remain at 265,000. High-priority, on-site inspections of persons and businesses in the firearms industry will continue to be conducted, and timely processing of all applications received will also be accomplished. Compliance Operations will continue to support Law Enforcement by selectively targeting inspections in high-crime locations where serious problems involving firearms and drug violations often occur, and by conducting inspections in task-force cities selected by Law Enforcement.

Proposed changes in the Compliance Operations Firearms Program in FY 1991 include an increase of 5 FTE positions and $260,000 to restore base staffing reductions from FY 1990; an increase of 35 FTE positions and $1,457,000 for annualization of the Anti-Crime Initiative; a reduction of $55,000 in nonrecurring costs from the FY 1990 Anti-

Crime Initiative; and an increase of 8 FTE positions related to a redistribution of Bureau support positions among the programs.

Additionally, the Compliance Operations Firearms Program will be reduced in FY 1991 by 18 FTE positions and $1,000,000 caused by the requirement to partially absorb the FY 1991 pay raise and other inflationary requirements. This FTE reduction will result in 1,200 fewer inspections being conducted.

4. EXPLOSIVES

The Compliance Operations Explosives Program ensures that the industry meets the requirements of laws and regulations by issuing permits and licenses, supporting law enforcement efforts, and contributing to public safety by conducting inspections to ensure safe and secure storage of explosives. A combination of inspections and educational efforts ensures that explosives are stored safely and free from the risk of theft. ATF's participation in the Federal Interagency Committee addresses problems of regulatory coordination.

Compliance efforts concentrate on ensuring that explosives are used and stored safely, with the emphasis on inspecting storage facilities which pose the most danger to public safety. Efforts also concentrate on preventing prohibited persons from entering the industry and ensuring new applicants for licenses and permits are adequately informed of laws and regulations governing the safe and secure storage of explosives. Application inspections are conducted on all new applicants.

During FY 1989, 6,643 applications were received and processed. In FY 1990 and FY 1991, 3,400 and 6,000 applications will be processed. A total of 4,009 inspections were conducted in FY 1989. In FY 1990 and FY 1991, the number of inspections will total 4,300; and the number of licensees and permittees are expected to remain at 12,500.

The Compliance Operations Explosives Program will increase in FY 1991 by 1 FTE position and $59,000 to restore base staffing reductions from FY 1990.

ACTIVITY 2: LAW ENFORCEMENT

ATF's Law Enforcement programs are committed to reducing crimes within ATF's jurisdiction, particularly crimes of violence which affect our Nation's citizens. Major activities consist of suppressing the illegal use and possession of explosives and destructive devices; suppressing arson crimes; reducing the incidence of possession and use of firearms by armed, habitual, career criminals; reducing the incidence of possession, sale and availability of illegal machineguns; providing assistance and state-of-the-art training to Federal, State, and local law enforcement agencies; and suppressing large-scale narcotics trafficking through enforcement of firearms and explosives laws.

The FY 1991 Law Enforcement budget request reflects a net increase of 22 FTE positions and $11,864,000. This amount includes restoration of base staffing reductions from FY 1990 of 33 FTE positions and $2,458,000; an increase of 150 FTE positions and $12,765,000 related to annualization of the FY 1990 Anti-Crime Initiative; an increase of 5 FTE positions and $257,000 for Information Systems ADP support; an increase of $1,759,000 for additional GSA space rental requirements; an increase of $14,319,000 for other inflationary and pay increases; reductions of $10,036,000 for nonrecurring costs; reductions of 122 FTE positions and $7,565,000 in the Firearms Program and 29 FTE positions and $1,945,000 in the Explosives Program to offset pay costs and other absorptions; and reductions of 15 FTE positions and $148,000 for productivity savings.

Program	FY 1989		FY 1990		FY 1991		Inc/Dec Over FY 1990	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Alcohol	5	353	30	2,448	30	2,601	-	153
2. Tobacco	3	176	4	284	4	301	-	17
3. Firearms	1,455	105,887	1,472	115,310	1,526	126,047	54	10,737
4. Explosives	822	59,661	855	66,623	823	67,580	(32)	957
Total	2,285	166,077	2,361	184,665	2,383	196,529	22	11,864

1. ALCOHOL

The Law Enforcement Alcohol Program investigates criminal violations of the FAA Act in support of Compliance Operations and sections of the Internal Revenue Code.

During FY 1989, 25 alcohol-related cases were initiated and 6 suspects were recommended for prosecution for violating alcohol statutes. In FY 1991, it is projected that 25 cases will be initiated and 6 suspects will be recommended for prosecution.

2. TOBACCO

ATF will continue to provide assistance to the States where Federal and State interests coincide.

3. FIREARMS

This program provides resources to combat firearms violations having the greatest detrimental impacts on society. Investigative priorities are on domestic and international arms trafficking, focusing on international and domestic narco-terrorist groups; organized crime, armed, habitual, career criminals; and narcotics traffickers.

The 1988 Uniform Crime Report documents that the incidence of firearms involved in murders, aggravated assaults, rapes, and robberies continues to be high, particularly in the larger urban centers of the United States. The criminal use of firearms continues to be a national problem. The most frequently used murder weapon in the United States in 1988 was a firearm, accounting for approximately 60 percent of these offenses. Firearms continue to be the principal weapon utilized in most other violent criminal acts, including armed robbery.

The Law Enforcement Firearms Program allows ATF to protect our Nation's citizens by prosecuting violent criminals who use firearms, such as narcotics traffickers, terrorists, organized crime members, and illegal international and domestic arms traffickers. Through its Crime Impact Program, ATF has examined how it can best use its firearms law jurisdictions to most effectively address our Nation's crime problem. Through this program, ATF considers the FBI's violent crime index and then assigns resources to geographic areas where highly violent crime occurs as reported in the index. In FY 1990, ATF initiated seven new task forces located within large

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metropolitan areas identified as having rates of high violent crime. These task forces will concentrate their enforcement efforts within a specific geographical area of the city, targeting active armed career criminals and armed narcotics traffickers.

In FY 1989, 45.6 percent of ATF's firearms defendants had a previous felony conviction, 70.6 percent (including those with felony convictions) had prior arrest records, 53.1 percent were narcotics traffickers, and 43 percent were armed when arrested. Many of the defendants fit more than one of these categories. These statistics show the critical nature of the firearms program and its direct relation to providing protection to the public by prosecution of serious offenders.

One of the primary focuses of the Law Enforcement Firearms Program is the elimination of illegal arms shipments to areas of vital interest to the United States. The primary objective is to prevent arms smuggling, which fuels the terrorism and violence associated with narcotics trafficking. The results of the Bureau's full participation in Operation Alliance support the fact that due to our unique enforcement jurisdictions, ATF is an effective tool against these illicit activities.

Since firearms are a primary tool of narco-terrorists in their campaign of violence, ATF has had a significant impact on their illegal activities. Both domestic and international narco-terrorist groups have increased in size dramatically; therefore, ATF will continue to direct a large portion of its resources to combat this alarming trend. During FY 1989, ATF had a successful year in apprehending and prosecuting members of these groups. ATF successfully completed 83 criminal cases directed at 205 individuals involved in illicit international firearms traffic. In addition, the Bureau conducted Anti-Terrorism Assistance Program seminars in Peru and Ecuador for the Department of State. To further enhance ATF's effectiveness in this area, in FY 1989, ATF initiated and participated in conferences with the Mexican Deputy Attorney General in Mexico City, Mexico; Jamaican Police Officials in Kingston, Jamaica; and Colombian Officials (through DEA) in Bogota, Colombia, regarding ATF's role in combatting international firearms trafficking.

The Bureau maintains the Nation's most competent civilian firearms technology staff at its Headquarters in Washington, DC. Here, firearms tests; classifications; and technical determinations of firearms (e.g., machineguns, rifles, and silencers, etc.)

are made at no cost to State or local agencies. The importance of this function is demonstrated by the fact that 1,950 formal technical determinations were made during FY 1989.

ATF's National Firearms Tracing Center is crucial to Federal, State, and local law enforcement programs. During FY 1989, the Center traced 41,807 firearms leading to the return of many stolen firearms which ATF took into custody.

In FY 1989, an overall 8,286 firearms cases were initiated and 6,669 suspects were recommended for prosecution. This represents a 27 percent increase in defendants over the previous year. In FY 1991, the Bureau projects that it will initiate 8,660 cases and recommend 6,970 suspects for prosecution.

Proposed changes in the Law Enforcement Firearms Program in FY 1991 include an increase of 21 FTE positions and $1,616,000 to restore base staffing reductions from FY 1990; an increase of 150 FTE positions and $12,765,000 for annualization of the FY 1990 Anti-Crime Initiative; an increase of 5 FTE positions and $257,000 for information systems ADP support; and a reduction of $8,207,000 in nonrecurring costs from the FY 1990 Anti-Crime Initiative.

Additionally, the Law Enforcement Firearms Program will be reduced in FY 1991 by 122 FTE positions and $7,565,000 as a result of absorbing the additional cost requirement of $5,990,000 for Administratively Uncontrollable Overtime under P.L. 101-173, and absorption of other inflationary increases of $1,575,000. This FTE reduction will result in 802 cases not being initiated and 646 suspects not being recommended for prosecution.

4. EXPLOSIVES

The Law Enforcement Explosives Program works to protect the public from violence perpetrated by bombings, arson, and explosives-related incidents. The Bureau achieves prosecutions and ensures the public safety by immediate response to these incidents. These criminal activities encompass a wide range of violations and are perpetuated by diverse groups and individuals which often include domestic and international terrorists. By enforcing its jurisdictional responsibilities and utilizing its investigative expertise, ATF has become increasingly involved in the investigation, apprehension and prosecution of terrorist gang members and those who provide these

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individuals with illegal explosives. ATF also traces recovered explosives for other domestic and international law enforcement organizations through its International Explosive Incidents System (I-EXIS) and Stolen Explosives and Recoveries (SEAR) programs. The purpose of I-EXIS is also to provide a repository for historical and technical library data to aid in investigating and monitoring international explosives incidents. I-EXIS allows explosives experts to collect, maintain, evaluate, and disseminate information helpful in determining motives, patterns, and trends.

The I-EXIS system maintains classified and unclassified information on international explosives incidents. International incidents are those that occur overseas and are of concern to the United States, and those incidents that occur in the United States which involve international figures. The system contains information relating to explosives incidents, pre-blast and post-blast investigations, suspects, components and explosives, and other relevant intelligence. Lookup tables and technical libraries support input data validation. The system provides comprehensive query and statistical reporting capabilities for incident investigations. I-EXIS also provides query capabilities for laboratory analyses. ATF recognizes that as a result of its jurisdictional authority and investigative expertise, it has a significant impact on the illegal activity of terrorists. Highest priority is given to enforcing our explosives laws by conducting prompt and thorough investigations of violations, including those committed by terrorists.

ATF provides assistance to State and local agencies in complex, multijurisdictional arsons and other explosives crimes, often utilizing ATF's National Response Teams to assist in major scene searches. ATF continually provides state-of-the-art training to State and local agencies in arson-for-profit investigations, where, both in training and in actual investigations, the "task force" approach to solving crimes is emphasized. An important fact when evaluating the Bureau's arson program is that, during FY 1989, ATF saved over $29.8 million in fraudulent insurance claims not paid. In addition, since the inception of ATF's arson enforcement program, ATF has saved over $382.4 million in fraudulent claim payments. In FY 1989, ATF recommended 347 defendants for arson prosecutions. ATF attributes most of this success to the development of the National Response Team and Arson Task Force concepts for use in major fires. ATF also investigates unintentional explosives incidents related to non-criminal industrial or commercial activity.

The Explosives Program is supported by ATF's nationally accredited forensic laboratory. Chemists, who are experts in examining bomb and arson evidence, provide laboratory analysis and, if required, expert courtroom testimony. ATF services are provided to State and local agencies who lack forensic expertise. Chemists are also assigned to each of the National Response Teams to provide expert on-the-scene examination of debris, parts of destructive devices and technical identification. ATF maintains the only computerized reporting and retrieval system that provides specific date/shift codes on stolen and recovered explosives. As a result, the Bureau is recognized and used nationally by law enforcement organizations for information on explosives recoveries and seizures.

During calendar year 1988, there were 1,332 reported bombings or attempted bombings, which caused 34 deaths, 204 injuries and in excess of $11 million in property damage. In addition, more than 12 tons of explosives were reported stolen in 191 separate incidents. ATF's investigative efforts and those of other law enforcement agencies resulted in the recovery of 16.5 tons of stolen explosives. It is thought that a significant amount of stolen explosives are diverted or repurchased for use in legitimate activities. During FY 1989, the Bureau initiated a total of 1,745 cases and recommended 788 suspects for prosecution. In FY 1991, the Bureau anticipates that it will initiate 1,808 cases resulting in the recommendation of 816 suspects for prosecution.

Proposed changes in the Law Enforcement Explosives Program in FY 1991 include an increase of 12 FTE positions and $842,000 to restore base staffing reductions from FY 1990 and a reduction of 15 FTE positions and $148,000 for productivity savings.

Additionally, the Law Enforcement Explosives Program will be reduced in FY 1991 by 29 FTE positions and $1,945,000 caused by the requirement to partially absorb the FY 1991 pay raise and other inflationary requirements. This FTE reduction will result in 64 cases not being initiated and 29 suspects not being recommended for prosecution.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Bureau of Alcohol, Tobacco and Firearms, including purchase of not to exceed six hundred and fifty vehicles for police-type use for replacement only and hire of passenger motor vehicles; hire of aircraft; and services of expert witnesses at such rates as may be determined by the Director; not to exceed $5,000 for official reception and representation expenses; for training of State and local law enforcement agencies with or without reimbursement; provision of laboratory assistance to State and local agencies, with or without reimbursement; [*$257,565,000, of which $19,000,000 shall be available solely for the enforcement of the Federal Alcohol Administration Act during fiscal year 1990, and*] $275,284,000, of which not to exceed $1,000,000 shall be available for the payment of attorney's fees as provided by 18 U.S.C. 924(d)(2): Provided, [*That no funds appropriated herein shall be available for administrative expenses in connection with consolidating or centralizing within the Department of the Treasury the records of receipts and disposition of firearms maintained by Federal firearms licensees or for issuing or carrying out any provisions of the proposed rules of the Department of the Treasury, Bureau of Alcohol, Tobacco and Firearms, on Firearms Regulations, as published in the Federal Register, volume 43, number 55, of March 21, 1978: Provided further, That none of the funds appropriated herein shall be available for explosive identification or detection tagging research, development, or implementation: Provided further,*] That not to exceed $300,000 shall be available for research and development of an explosive identification and detection device[*: Provided further, That funds made available under this Act shall be used to maintain a base level of 3,850 full-time equivalent positions for fiscal year 1990, of which no fewer than 692 full-time equivalent positions shall be allocated for the Armed Career Criminal Apprehension Program*]. *(Treasury Department Appropriations Act, 1990.)*

[*To fight the war against armed career criminals, an additional amount of $10,000,000 for the hiring, training and equipping of additional agents and inspectors to enhance the arrest and conviction of armed career criminals who violate Federal firearms statutes.*] *(Department of Transportation and Related Agencies Appropriations Act, 1990.)*

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

Explanation for changes - The appropriation language mandating a certain spending level in support of the Federal Alcohol Administration Act (FAA Act) should be deleted since it unnecessarily restricts the Bureau's ability to redirect resources to programs of critical need. The language which prohibits the Bureau from incurring administrative expenses in connection with consolidating or centralizing firearms records maintained by Federal firearms licensees within the Department of the Treasury should be deleted because the Gun Control Act of 1968 as amended, specifically prohibits such activity (18 U.S.C. 926(a)). The language stating that none of the appropriated funds shall be available for explosives identification or detection tagging research, development, or implementation should be deleted since it is inconsistent with the language which states that not to exceed $300,000 shall be available for the same purpose. The language which directs the Bureau to maintain a base level of 3,850 FTE positions should be deleted since it unnecessarily restricts management's ability to balance personnel and capital resources in meeting the needs of the agency.

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

SELECTED WORKLOAD DATA

Activities and Principal Workload Factors	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate	Percent Increase or Decrease (FY 1991 over FY 1990)
1. COMPLIANCE OPERATIONS:				
a. Alcohol:				
Applications Processed	5,803	5,803	5,700	(1.8)
Establishments	31,146	31,000	31,000	0.0
Inspections	13,101	9,800	9,100	(7.1)
Label Approvals Processed	60,193	58,000	55,000	(5.2)
Revenue Collected ($000):				
Special Occupational Taxes	$128,980	$119,000 1/	$183,000 2/	53.8
Distilled Spirits	3,862,326	3,850,000	3,850,000	0.0
Wine	270,061	270,000	270,000	0.0
Beer	1,678,070	1,670,000	1,670,000	0.0
Refund on Alcohol Products	(209,301)	(209,000)	(209,000)	0.0
Total Revenue	$5,730,056	$5,700,000	$5,764,000	1.1
Number of Returns	512,109	511,000	511,000	0.0
b. Tobacco:				
Applications Processed	180	130	130	0.0
Establishments	347	350	350	0.0
Inspections	227	275	275	0.0
Revenue Collected ($000)	$4,290,280	$4,300,000	$4,300,000	0.0
Number of Returns	3,227	3,200	3,200	0.0
c. Firearms:				
Applications Processed	89,210	100,000	100,000	0.0
Import/NFA Applications & Cert. Processed	166,811	130,000	130,000	0.0
Inspections	9,615	12,300	13,400	8.9
Number of Licensees	264,247	265,000	265,000	0.0
d. Explosives:				
Applications Processed	6,643	3,400 3/	6,000	76.5
Inspections	4,009	4,300	4,300	0.0
Number of Licensees/ Permittees	13,108	12,500	12,500	0.0

1/ Based upon original FY 1989 estimate of $116 million.
2/ Increase is due to proposed legislative change.
3/ Natural decline due to multi-year renewal cycle.

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

SELECTED WORKLOAD DATA

Activities and Principal Workload Factors	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate	Percent Increase or Decrease (FY 1991 over FY 1990)
2. LAW ENFORCEMENT:				
a. Alcohol:				
Cases Initiated	25	25	25	0.0
Suspects Recommended for Prosecution	6	6	6	0.0
b. Tobacco:				
Cases Initiated	6	6	6	0.0
Suspects Recommended for Prosecution	0	0	0	0.0
c. Firearms:				
Cases Initiated	8,286	8,358	8,660	3.6
Suspects Recommended for Prosecution	6,669	6,727	6,970	3.6
Firearms Traces	41,807	43,000	43,000	0.0
d. Explosives:				
Cases Initiated	1,745	1,808	1,742	(3.7)
Suspects Recommended for Prosecution	788	816	786	(3.7)
Explosives Traces	256	260	270	3.8

SUMMARY OF EMPLOYMENT BY CATEGORY
(Number of Full-Time Equivalent Positions)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Changes for 1991 Total	Changes for 1991 Program Changes	Changes for 1991 Other
Special Agents	1,559	1,703	1,734	31	(119)	150
Inspectors	690	820	825	5	(30)	35
All Other	1,357	1,183	1,147	(36)	(15)	(21)
Total Full-Time Equivalent Positions	3,606	3,706	3,706	0	(164)	164

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Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVEL AND ADJUSTMENTS

In response to Congressional action on the FY 1990 President's Budget request, and as a result of other workload and cost changes, the Bureau of Alcohol, Tobacco and Firearms proposes the following adjustments in FY 1990 spending ($000):

Object Classification	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9 Personnel Compensation.....	120,685	14,839	0	135,524
12.0 Personnel Benefits.....	31,650	4,320	0	35,970
13.0 Benefits for Former Personnel....	62	0	14	76
21.0 Travel and Transportation of Persons.....	8,487	2,250	0	10,737
22.0 Transportation of Things.....	1,310	115	(13)	1,412
23.1 GSA Rent.....	17,241	2,782	0	20,023
23.2 Other Rent.....	868	490	0	1,358
23.3 Other Rent, Comm. and Utilities..	11,064	1,664	0	12,728
24.0 Printing and Reproduction.....	1,292	0	(122)	1,170
25.0 Other Services.....	15,986	976	0	16,962
26.0 Supplies and Materials.....	6,005	670	0	6,675
31.0 Equipment.....	12,444	8,832	0	21,276
42.0 Insurance Claims and Indemnities.	39	0	121	160
Total.....	227,133	36,938	0	264,071
Activity				
1. Compliance Operations	65,428	13,978	0	79,406
2. Law Enforcement	161,705	22,960	0	184,665
Total.....	227,133	36,938	0	264,071

Explanation of Congressional Action

Public Laws 101-136 and 101-164 increased the Bureau's FY 1990 President's Budget by $40,432,000 and 360 FTE positions. These increases were earmarked to restore resources to the Bureau's Alcohol Programs and to expand the Bureau's efforts in both of our Firearms Programs. In addition, the GRH reduction of $13,276,000 was partially restored in the amount of $9,782,000 under Public Law 101-239; thereby requiring a one-time permanent reduction of $3,494,000. This reduction was taken proportionally across all Bureau programs and includes a reduction of 51 FTE positions which were pro-rated between activities. In addition to these net increases, additional resources are being directed into the Law Enforcement Tobacco Program from the Alcohol Program.

FY 1990 Increases Above Requested Levels:

Activity 1 - Compliance Operations

	FTE	AMOUNT
CO Alcohol Program restoration	130	8,000,000

This restoration will:

- Return staffing in this program to the level authorized by Congress for FY 1989 so that it is maintained in FY 1990; and

- Enable inspectors to conduct more application and compliance inspections to ensure that prohibited persons are kept out of the industry;

CO Alcohol Program expansion	--	1,095,000

This increase will:

- Provide for the replacement of obsolete automated data processing equipment to support tax collection activities.

	FTE	AMOUNT
CO Firearms Program expansion.....	60	2,795,000

This increase will:

- Enable inspectors to conduct more application and compliance inspections to ensure that prohibited persons are kept out of the industry;
- Allow Compliance Operations to more adequately support Law Enforcement's efforts against armed career criminals by targeting additional compliance inspections in high crime locations where serious problems involving firearms and drug violations often occur; and
- Enhance compliance by firearms dealers with Federal statutes and ensure that dealers' transactions records are accurate to facilitate tracing of firearms used in crimes.

Maintaining Current Level Increases and Support FTE Adjustment.....	(4)	3,124,000
GRH Sequester Reductions.....	(18)	(1,036,000)
Subtotal Compliance Operations Activity.....	168	13,978,000

Activity 2 - Law Enforcement

LE Alcohol Program restoration.....	20	1,100,000

This restoration will:

- Return staffing in this program to the level authorized by Congress in order to investigate cases of alcohol label fraud which are used to falsely identify labels to reduce tax consequences.

	FTE	AMOUNT
LE Firearms Program expansion	150	21,515,000

This increase will:

- Allow ATF to broaden the scope of the Firearms Program and to expand its participation in Project Achilles Task Forces nationwide; allow increased efforts to enforce the armed career criminal statutes; and enhance enforcement efforts to combat international terrorists, narco-terrorists and their firearms supply groups.

Maintaining Current Level Increases and Support FTE Adjustment	4	2,803,000
GRH Sequester Reductions	(33)	(2,458,000)
Subtotal Law Enforcement Activity	141	22,960,000
Total Congressional Action Adjustments	309	36,938,000

Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

FY 1990 Reprogramming:

	FTE	AMOUNT
Activity 2 - Law Enforcement		
LE Alcohol Program	(4)	(284,000)
LE Tobacco Program	4	284,000

- Reprogramming these positions into the Tobacco Program enables the Bureau to assist the States in monitoring transportation of contraband cigarettes, and to supply Federal enforcement resources in those areas beyond the jurisdiction and resource capabilities of the States. Some States are increasing cigarette excise taxes, thereby increasing the probability of more cigarettes being transported among States for tax-circumvention or other illegal purposes. This change continues assistance to the States in support of Public Law 95-575 and as directed by Congress.

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

Resource requirements for the Bureau of Alcohol, Tobacco and Firearms in FY 1991 are estimated to be 3,706 FTE positions and $275,284,000. This includes net program decreases of 164 FTE positions and $8,008,000, increases of 185 FTE positions and $31,324,000 to maintain current level of operations, offset by reductions of 21 FTE positions and $12,103,000 associated with nonrecurring costs and savings for FY 1991. The proposed budget request maintains the same staffing level and provides for an increase of $11,213,000 when compared to the authorized level of 3,706 FTE positions and $264,071,000 for FY 1990.

PROGRAM CHANGES

	FTE	AMOUNT
TOTAL REQUESTED PROGRAM CHANGES	(164)	(8,008,000)
1. Restoration of Base Staffing Reductions	51	3,494,000

The Bureau is requesting an increase of 51 FTE positions and $3,494,000 in order to adequately support our inspection and enforcement activities in FY 1991.

2. GSA Space Rental	--	2,651,000

The Bureau is presently expanding due to increase of resources received for support of staffing to combat armed career criminals. Our long-range goals and objectives are to support the Administration in its war on crime by expanding existing offices, opening new offices and creating new task forces. To accomplish these goals, the Bureau will require additional funding in the amount of $2,651,000, as explained below.

Plans to open new offices and establish new task forces are currently underway. Assignment of new personnel and the creation of task forces have required us to examine our office

and special space needs to accommodate additional agent and inspector positions. Delays in being billed by GSA for space currently occupied by Bureau personnel, increased costs associated with the renegotiations of leases by GSA which expire during FY 1990, and forced moves initiated by GSA and/or other Government agencies will require an additional $1,477,000 for GSA rental payments in FY 1991.

In addition, the Bureau Headquarters operation is scheduled to move to a new location in early FY 1991 so that the Ariel Rios Federal Building can be renovated. While GSA will cover the costs related to the forced move, an additional $1,174,000 is required to meet the projected rental payment increase caused by the Headquarters move.

3. Information Systems (LE Firearms)..... 5 257,000

Funding requested for this initiative includes 5 FTE positions and $257,000. This increase is needed to support the Bureau's expanded role in the President's Anti-Crime Initiative, specifically with respect to the Law Enforcement Firearms Program.

The additional resources will be used to provide ADP services to the Office of Law Enforcement in support of their data collection and analysis systems used to support weapons tracing, explosives identification, and drug trafficking enforcement.

4. CO Alcohol Reduction..... (51) (3,900,000)

This reduction is based on cost savings that will occur by conducting 700 fewer inspections in the areas of qualification, trade practices, and product integrity; and restructuring the SOT tax system.

5. Program Reductions to Offset Pay Costs and Other Absorptions.....(169)(10,510,000)

-- The Law Enforcement Firearms Program has been reduced by 122 FTE positions and $7,565,000 in FY 1991. Of this amount, $5,990,000 is related to the full year cost absorption of Administratively Uncontrollable Overtime (AUO) required under Public Law 101-173. The Bureau must fund the higher salary and benefit costs for agent personnel beginning in FY 1991. The remaining $1,575,000 is associated with the absorption of unfunded inflationary costs in FY 1991.

-- The Law Enforcement Explosives Program has been reduced by 29 FTE positions and $1,945,000 in FY 1991. Of this amount, $1,541,000 is related to absorption of 50 percent of the proposed FY 1991 pay raise, and it represents the Law Enforcement Activity share. The remaining $404,000 is associated with the absorption of unfunded inflationary costs in FY 1991.

-- The Compliance Operations Firearms Program has been reduced by 18 FTE positions and $1,000,000 in FY 1991. Of this amount, $795,000 is related to absorption of the Compliance Operations Activity share of the proposed FY 1991 pay raise. The remaining $205,000 is associated with the absorption of unfunded inflationary costs in FY 1991.

OTHER CHANGES

TOTAL OTHER CHANGES	164	19,221,000
Adjustments Necessary to Maintain Current Levels	185	31,324,000
1. Annualization of FY 1990 Anti-Crime Initiative	185	14,222,000

In order to support the President's Comprehensive Anti-Crime Initiative to combat violent crime, an additional 149 FTE and $13,183,000 was included for the Armed Career Criminal Program in FY 1990 under the Treasury Appropriation Bill enacted on November 3, 1989 (P.L. 101-136). Also, under the Transportation Bill (P.L. 101-164), ATF was appropriated an additional $10,000,000 in FY 1990, which provided an additional 41 FTE for the hiring, training, and equipping of special agents and inspectors to enhance the arrest and conviction of armed career criminals who violate Federal firearms laws. The additional 185 FTE and $14,222,000 in FY 1991 are required to provide for full-year costs arising from this initiative.

2. Annualization of FY 1990 Pay Act Increases	--	1,381,000

This amount represents 25 percent of the FY 1990 base amount for the January 1990 pay raise and includes the associated increase for employee benefits ($290,000).

3. Increased Cost for Proposed FY 1991 Pay Raise	--	4,462,000

This amount reflects the additional salaries needed to support the proposed January 1991 pay raise (3.5 percent), and includes the associated increase for employee benefits ($937,000).

4.	Increased Cost for EX/SES Pay Raise (P.L. 101-194).....	--	210,000

This amount reflects the increased cost of salaries and benefits during FY 1991 for 18 Senior Executive Service positions, pursuant to Public Law 101-194.

5.	Increased Cost of Administratively Uncontrollable Overtime (AUO).	--	5,990,000

During FY 1990, AUO will be compensated at a maximum rate of 25 percent of a GS 10/1 salary for special agent personnel. With the passage of Public Law 101-173, the AUO paid to special agents will be equal to 25 percent of an agent's actual rate of pay. This Act will go into effect after September 30, 1990. This increase represents the higher cost of salaries and benefits for AUO to be paid to 1,195 special agents in FY 1991.

6.	Increased Cost for Additional Compensable Day.....	--	616,000

This increase represents the increased cost of salaries and benefits for one additional compensable day in FY 1991 over FY 1990.

7.	Increased Cost of Health Insurance.....	--	875,000

The Office of Personnel Management (OPM) projects a general increase of 15 percent for agency contributions to employee health benefits.

8.	Increased Cost of Workers' Compensation.....	--	439,000

This increase represents the actual 1989 Workers' Compensation Fund billing that will be paid in FY 1991.

9. Increased Cost of Other Benefits..... -- 246,000

For other benefits which include permanent change of station real estate costs, temporary quarters allowance, and life insurance, the FY 1990 base has been increased by 4.2 percent for FY 1991.

10. Increased Cost of Travel & Transportation of Persons..... -- 611,000

This amount represents an overall increase of 5.7 percent to the FY 1990 base travel costs. This increase includes 6.5 percent related to changes in Industrial Funding rates (GSA per diem rates and GSA motor vehicle lease costs) and 4.2 percent increase for all other travel categories.

11. Increased Cost of Transportation of Things..... -- 48,000

An increase of 4.2 percent has been applied to the FY 1990 base for Transportation of Things, Transportation of Household Goods, and Freight Costs.

12. Increased Cost of Rent, Communications and Utilities..... -- 59,000

This net increase includes the change in costs from FY 1990 to FY 1991 for the following requirements:

GSA and Other Space Rental (4.4%).....941,000
Digital Telecommunications System (DTS).....46,000
Consolidated Data Network (CDN).....85,000
Federal Telecommunications Systems (FTS).....(1,259,000)
All Other Categories (4.2% increase).....246,000

13. Increased Cost of Printing and Reproduction..... -- 82,000

The Government Printing Office (GPO) projects a 7 percent increase in printing for FY 1991. This has been applied to the FY 1990 base for GPO, Commercial and WCF Printing Costs.

14. Increased Cost of Other Services..... -- 805,000

This increase includes the change in costs from FY 1990 to FY 1991 for the following requirements:

GSA Services (6.5% - Industrial Funding).....119,000
Payroll/Personnel (NFC).....83,000
All Other Services (4.2% increase).....603,000

15. Increased Cost of Supplies and Materials..... -- 323,000

This increase includes the change in costs from FY 1990 to FY 1991 for the following requirements:

GSA-related Supplies (6.5% - Industrial Funding)...64,000
Domestic Subscriptions/Publications (8% increase)..42,000
All Other Supplies (4.2% increase).....217,000

16. Increased Cost of Equipment..... -- 955,000

This amount includes a 5 percent increase associated with the additional costs of purchasing vehicles, based on GSA's current estimates. For all other categories of equipment, the inflation rate of 4.2 percent has been applied to the FY 1990 base.

Reductions, Nonrecurring Costs, and Savings	(21)	(12,103,000)	
1. Nonrecurring one-time expenses	--	(11,896,000)	

A decrease of $11,896,000 is estimated for the one-time costs from FY 1990 associated with:

-- Procurement of replacement automated data processing equipment to support tax collection activities ($1,095,000);

-- The hiring, training, and equipping of additional agents and inspectors for the Armed Career Criminal Program (Anti-Crime Initiative) provided under Public Laws 101-136 and 101-164 ($8,262,000);

-- Excess inflationary add-ons allowed in FY 1990 ($2,539,000)

2. A-76 Savings	(21)	(207,000)	

These savings are anticipated in FY 1991 due to increases in productivity.

TUESDAY, MARCH 6, 1990.

U.S. CUSTOMS SERVICE

WITNESSES

CAROL B. HALLETT, COMMISSIONER

MICHAEL H. LANE, DEPUTY COMMISSIONER

C. WAYNE HAMILTON, BUDGET DIRECTOR

DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT, DEPARTMENT OF THE TREASURY

INTRODUCTION

Mr. AKAKA. The subcommittee hearing will come to order.

We are delighted to have you here, Mrs. Hallett. It is good to see you and your staff at this hearing. I want to tell you that we have the best on that side. Joe Skeen is here. [Laughter.]

Mr. Roybal will be delayed so I will open the hearing here. I also want to tell you that we will accept your full testimony.

Ms. HALLETT. Thank you.

Mr. AKAKA. And you may proceed any way you want to. Then we will follow it with questions.

You may proceed.

[The prepared statement of Mrs. Hallett follows:]

3(1)

U.S. CUSTOMS SERVICE

STATEMENT OF CAROL HALLETT,

COMMISSIONER OF CUSTOMS

FOR DELIVERY BEFORE

THE TREASURY, POSTAL SERVICE

AND GENERAL GOVERNMENT

SUBCOMMITTEE OF

THE HOUSE COMMITTEE ON

APPROPRIATIONS

U.S. HOUSE OF REPRESENTATIVES

MARCH 6, 1990

10:00 AM

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM PLEASED TO COME BEFORE YOU TODAY TO PRESENT CUSTOMS FY 1991 BUDGET REQUEST.

OUR FY 1991 REQUESTED SALARIES & EXPENSES APPROPRIATION IS $1,120,086,000, AN INCREASE OF ALMOST $55 MILLION ABOVE LAST YEAR. INCLUDED IN THIS BUDGET REQUEST ARE INCREASES NECESSARY TO MAINTAIN CURRENT OPERATING LEVELS AS WELL AS $27,474,000 AND 221 FTE FOR NEW INITIATIVES TO UPGRADE CUSTOMS COMMERCIAL AND ENFORCEMENT PROGRAMS. THE INITIATIVES INCLUDE A FUNDING INCREASE OF $5,200,000 AND 10 FTE, TO IMPLEMENT IMPROVEMENTS IN CUSTOMS INTERNAL CONTROLS PROGRAM, AN AREA OF CONCERN DURING THE PAST YEAR. FINALLY, THE ADMINISTRATION IS REQUESTING SUPPORT OF OUR MONEY LAUNDERING AND SOUTHWEST BORDER FACILITIES PROGRAMS.

ON THE WHOLE, WE BELIEVE THAT THE ADMINISTRATION'S REQUEST FOR CUSTOMS SALARIES & EXPENSES ADEQUATELY SUPPORTS CUSTOMS BORDER INTERDICTION CAPABILITIES AND THE AUTOMATED COMMERCIAL SYSTEMS (ACS), THE MAINSTAY OF OUR COMMERCIAL PROGRAM. IT IS A BUDGET WHICH WILL ASSIST OUR EFFORTS TO INCREASE DRUG SEIZURES AND DETER DRUG SMUGGLERS, AS WELL AS PROVIDE BETTER SERVICE TO THE NATION'S IMPORTING INDUSTRY.

THE CUSTOMS AIR PROGRAM OPERATIONS & MAINTENANCE (O&M) APPROPRIATION REQUEST FOR FY 1991 IS $143,047,000. ALTHOUGH THIS REQUEST LEVEL APPEARS TO BE SIGNIFICANTLY BELOW THE APPROPRIATED LEVEL OF FY 1990, IT IS ACTUALLY AN INCREASE OF $16,084,000 IN FUNDING FOR AIR OPERATIONS. NONRECURRING COSTS TOTAL $103,400,000 FOR C3I CENTERS, P-3AEW MODIFICATION, CITATION

AIRCRAFT, RELOCATION OF THE PHOENIX AIR BRANCH, AND REFURBISHING SUPPORT HELICOPTERS. THE REQUEST ALSO INCLUDES $7,140,000 FOR MAINTAINING THE CURRENT LEVEL OF OPERATIONS AND $8,944,000 TO INSURE THAT NEWLY ACQUIRED DETECTION AND INTERCEPTOR AIRCRAFT WILL BE FULLY OPERATIONAL IN FY 1991.

CUSTOMS IS ALSO REQUESTING AN FY 1991 APPROPRIATION OF $14,855,000 FOR ITS FORFEITURE FUND AND $2,152,000 FOR OPERATIONS AT THE SMALL AIRPORTS FUNDED BY USER FEES.

THE FY 1991 BUDGET REQUEST WAS PREPARED WITHIN THE FRAMEWORK OF THE COMMERCIAL PROCESSING AND ENFORCEMENT ENVIRONMENT CONFRONTING CUSTOMS NOT ONLY TODAY, BUT ALSO OVER THE DECADE. IT IS A PERIOD WHERE WE WILL BE FACED WITH MAJOR GROWTH IN WORLD TRADE, ILLEGAL ACTIVITIES AND THE NEED FOR BETTER FACILITATION.

ACCORDING TO THE BEST INFORMATION AVAILABLE, FOR THE DECADE AHEAD WE FORESEE A DOUBLING OF TRADE, PASSENGERS, ENTRIES, AND CONTAINER PROCESSING. INTERNATIONAL WORLD TRADE COMPETITION WILL GROW AS MORE ECONOMIES MATURE AND DEVELOP GREATER INDUSTRIAL CAPABILITIES. IN ADDITION, WE BELIEVE THE COMPLEXITY OF WORLD TRADE WILL GROW AS THIS DECADE APPROACHES THE YEAR 2000.

WHAT DO THESE IMPRESSIVE CHANGES MEAN FOR CUSTOMS? THE ADMINISTRATION, THE TREASURY DEPARTMENT AND THE CUSTOMS SERVICE FIRMLY BELIEVE THAT NOW IS THE TIME TO START THE PLANNING FOR THESE CHANGES. WE BELIEVE THAT WE MUST MAINTAIN THE EFFECTIVENESS OF BOTH COMMERCIAL AND ENFORCEMENT PROGRAMS; MOST ASSUREDLY THESE PROGRAMS ARE THE BUSINESS OF THE CUSTOMS SERVICE. PROGRAMS IMPLEMENTED IN PREVIOUS YEARS CONTINUE TO PRODUCE GOOD

RESULTS AND HIGH PRODUCTIVITY IN PROCESSING, AS WELL AS ENFORCEMENT RETURNS.

AS IN PREVIOUS YEARS, THE CUSTOMS WORKFORCE, USING OUR AUTOMATED SYSTEMS, HAS EFFICIENTLY COPED WITH A GROWING WORKLOAD. IN FY 1989, OUR STAFF PROCESSED CLOSE TO 9 MILLION MERCHANDISE ENTRIES, ALMOST 115 MILLION CARRIERS AND CONVEYANCES, AND ABOUT 345 MILLION PERSONS. IN FY 1991, WE ARE PROJECTING INCREASES IN EACH OF THESE AREAS.

ON THE REVENUE SIDE, CUSTOMS IN FY 1989 COLLECTED $18.6 BILLION, UP 6.8 PERCENT FROM THE PREVIOUS YEAR. BY FY 1991, REVENUES WILL TOP $20 BILLION. OUR ENFORCEMENT STAFF ALSO HAS DONE A GOOD JOB IN STOPPING ENORMOUS QUANTITIES OF DRUGS FROM CROSSING THE BORDER INTO THE HANDS OF YOUNG AMERICANS. IN FY 1989, OUR HEROIN SEIZURES WERE OVER 1,000 POUNDS WHILE COCAINE SEIZURES WERE OVER 128,000 POUNDS. NEEDLESS TO SAY, THESE SEIZURES DEPRIVED THE CRIMINALS' TRAFFICKING CONSPIRACIES OF BILLIONS OF DOLLARS OF ILLEGAL PROFITS.

IMPROVED MANAGEMENT CONTROLS

A VERY IMPORTANT PART OF THE ADMINISTRATION'S REQUEST IS FOR $5,200,000 AND 10 FTE TO UPGRADE CUSTOMS INTERNAL CONTROLS AND CORRECT PROBLEMS REPORTED UNDER THE FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA). IT IS CERTAINLY AN AREA WHICH HAS RECEIVED INTENSE SCRUTINY WITHIN THE TREASURY DEPARTMENT AND FROM THE CONGRESS.

THIS FUNDING IS NEEDED TO CONTINUE OUR EFFORTS TO PERMANENTLY ESTABLISH A STRONG SYSTEM OF INTERNAL CONTROLS AND

SOUND FINANCIAL MANAGEMENT SYSTEMS WITHIN THE CUSTOMS SERVICE. WITH THIS FUNDING WE WILL EXPAND OUR CURRENT FMFIA FIELD REVIEW PROGRAM, CONTINUE OUR ACCOUNT RECONCILIATION PROGRAM, IMPROVE OUR REVENUE ACCOUNTING PROCEDURES, AND COMPLETE THE NEXT CRITICAL PHASE OF OUR NEW INTEGRATED FINANCIAL MANAGEMENT SYSTEM, AND THE ASSET INFORMATION MANAGEMENT SYSTEM (AIMS).

THIS INITIATIVE BUILDS ON OUR ACCOMPLISHMENTS OVER THE PAST YEAR IN THE AREAS OF INTERNAL CONTROLS AND FINANCIAL MANAGEMENT. IN FISCAL YEAR 1989 WE INITIATED AN FMFIA IMPROVEMENT PROGRAM TO CORRECT REPORTED DEFICIENCIES. WE HAVE BEEN LARGELY SUCCESSFUL IN ADDRESSING THESE PROBLEMS. WE ARE PARTICULARLY PROUD OF OUR ACHIEVEMENT IN ESTABLISHING A STRONG AND EFFECTIVE ADMINISTRATIVE FUND CONTROL SYSTEM. ALSO, WE WERE ABLE TO DIVERT RESOURCES INTO OTHER CRITICAL AREAS OF INTERNAL CONTROLS AND FINANCIAL MANAGEMENT.

UPON BECOMING COMMISSIONER, I FELT IT WAS NECESSARY TO STRESS THE IMPORTANCE OF INTEGRITY. I STRONGLY BELIEVE THAT THE INTEGRITY OF OUR EMPLOYEES AND THE PROGRAMS OF THE CUSTOMS SERVICE ARE AMONG THE BEST OF ALL FEDERAL AGENCIES. NEVERTHELESS, I CAN ASSURE YOU THAT SHOULD PROBLEMS ARISE, THEY WILL BE VIGOROUSLY ADDRESSED THROUGH PROMPT INVESTIGATION AND BY FULL RESOLUTION OF ALL ALLEGATIONS.

IN ADDITION, WE ARE WORKING EXPEDITIOUSLY TO SOLVE THE PROBLEMS IDENTIFIED BY THE CONGRESS RELATED TO SEIZED AND FORFEITED PROPERTY. I CAN ASSURE YOU THAT THE PROBLEMS WE HAVE ENCOUNTERED ARE IN THE PAST. WE ARE SEARCHING FOR A NEW

CONTRACTOR AND THE RULES THEY WORK UNDER WILL BE MUCH TIGHTER.

THE FOLLOWING SECTIONS DISCUSS OUR MAJOR PROGRAMS, INCLUDING CURRENT STATUS, FY 1990/1991 PLANS AND STRATEGIES, ACCOMPLISHMENTS AND NEW INITIATIVES REQUESTED IN FY 1991.

COMMERCIAL ACTIVITIES

THE CUSTOMS COMMERCIAL PROGRAMS IMPLEMENT U.S. TRADE POLICY AND INCLUDE THE OVERALL MISSION OF APPRAISEMENT, CLASSIFICATION AND COLLECTION OF DUTIES; EFFECTIVE ENFORCEMENT OF CUSTOMS LAWS, REGULATIONS, AND OTHER AGENCY REQUIREMENTS FOR THE CONTROL OF CARRIERS AND CARGO; AND ENSURING THAT IMPORTED MERCHANDISE MEETS ALL NECESSARY REQUIREMENTS FOR ENTRY INTO THE UNITED STATES. TO CARRY OUT THIS COMPLEX TASK, CUSTOMS HAS DEVELOPED POLICIES AND PROCEDURES TO: INSURE UNIFORMITY AND ACCURACY OF TRADE PROCEDURES; ENFORCE LAWS AND REGULATIONS THAT RESTRAIN HARMFUL TRADE PRACTICES; AND ADMINISTER INTERNATIONAL CODES AND AGREEMENTS.

A MAJOR CHALLENGE CONTINUES TO BE FACILITATION OF CARGO AND ENTRY PROCESSING WHILE AT THE SAME TIME MAINTAINING HIGH COMPLIANCE LEVELS DESPITE AN INCREASINGLY COMPLEX WORKLOAD. WE ARE CONTINUING TO MEET THIS CHALLENGE THROUGH THE INCREASED USE OF SELECTIVITY SUPPORTED BY THE AUTOMATED COMMERCIAL SYSTEM (ACS). SYSTEMS LINKING FIELD OPERATIONS WITH THE CUSTOMS NATIONAL COMPUTER, AS WELL AS AUTOMATED INTERFACES WITH BROKERS, CARRIERS, AND OTHER AGENCIES HAVE BEEN IMPLEMENTED. THESE SYSTEMS, TOGETHER WITH OTHER INNOVATIVE PROCEDURES, SUCH AS OUR NEW PRE-ENTRY CLASSIFICATION AND BINDING RULINGS PROGRAMS AND

EFFORTS TO IMPROVE AND ENHANCE BROKER COMPLIANCE, ARE WORKING TO BRING ABOUT IMPROVED QUALITY AND UNIFORMITY IN IMPORTED MERCHANDISE PROCESSING. ADDITIONALLY, INITIATIVES HAVE BEEN UNDERTAKEN TO GREATLY INCREASE THE USE OF COMPUTER ASSISTED AUDIT TECHNIQUES AND AUDIT TARGETING.

BY AUTOMATING MOST OF THE DUTY ASSESSMENT SYSTEMS, THE INCREASING VOLUME OF ENTRY PAPERWORK IS NOW BEING PROCESSED MORE COST-EFFECTIVELY AND EFFICIENTLY. ALONG WITH THESE INNOVATIONS, WE ARE LOOKING TO ELIMINATE AS MANY PAPER FORMS AND REQUIREMENTS FROM THE ENTRY PROCESS AS POSSIBLE. OUR EFFORTS IN THIS AREA HAVE LED TO AN INTERNATIONAL LEADERSHIP ROLE IN THE DEVELOPMENT AND TESTING OF ELECTRONIC DATA INTERCHANGE, WHICH ONE DAY WILL RESULT IN THE ELECTRONIC TRANSMISSION OF INVOICE AND OTHER ENTRY-RELATED DATA AMONG THE INTERNATIONAL BUSINESS COMMUNITY.

PREPARING FOR THE FUTURE

IN THE NEXT DECADE, WE ARE PREPARING FOR ANOTHER EXPLOSIVE GROWTH IN TRADE. DUTY COLLECTIONS HAVE INCREASED FROM $6 BILLION TO ALMOST $20 BILLION SINCE 1978. BY THE YEAR 2000, WE EXPECT TO COLLECT UP TO $40 BILLION. IN THE EARLY 1980'S THERE WERE FOUR MILLION FORMAL ENTRIES: BY 1988, THAT FIGURE HAD RISEN TO 9 MILLION, AND BY THE YEAR 2000, WE ARE PROJECTING GROWTH TO 20 MILLION ENTRIES.

TO PREPARE FOR SUCH DRAMATIC WORKLOAD INCREASES, WE HAVE INITIATED SUCH PROGRAMS AS: DEVELOPMENT AND REFINEMENT OF THE AUTOMATED COMMERCIAL SYSTEM; IMPROVED UNIFORMITY OF PROCESSING; AMD ELIMINATION OF WORKLOAD BACKLOGS. WE WILL CONTINUE OUR

COMMITMENT TO THE DETECTION, DETERRENCE AND PROSECUTION OF COMMERCIAL FRAUD; PROTECTED INTELLECTUAL PROPERTY RIGHTS THROUGH IMPROVED SELECTIVITY; AND UNIFORM INTERNATIONAL COMMERCIAL PROCESSING PROCEDURES.

IN THE NEXT TWO YEARS, WE WILL CONCENTRATE ON ACHIEVING PAPERLESS COMMERCIAL PROCESSING. THE FIRST MAJOR STEP IN ACCOMPLISHING THIS GOAL IS TO AUTOMATE INFORMATION COLLECTION REQUIREMENTS OF THE APPROXIMATELY 40 AGENCIES FOR WHICH CUSTOMS COLLECTS DATA. ADDITIONALLY, FURTHER AUTOMATION OF QUOTA AND VISA FUNCTIONS IS PLANNED.

FY 1990/1991 ACTIVITIES AND STRATEGIES

DURING THIS PERIOD WE WILL SEE DRAMATIC CHANGES IN CUSTOMS COMMERCIAL ACTIVITIES. THE HARMONIZED TARIFF SYSTEM AND THE CANADIAN FREE TRADE AGREEMENT HAVE NOW BEEN IMPLEMENTED, ALONG WITH A NUMBER OF INNOVATIVE CUSTOMS PROGRAMS, SUCH AS OUR NEW BINDING RULINGS PROGRAM.

OUR MAJOR GOALS IN THE UPCOMING YEARS WILL BE TO: CONTINUE THE DEVELOPMENT AND REFINEMENT OF ACS; CONTINUE OUR COMMITMENT TO THE DETECTION, DETERRENCE AND PROSECUTION OF COMMERCIAL FRAUD; IMPROVE PRODUCTIVITY AND RESOURCE CONTROL, THEREBY FURTHERING OUR PAPERLESS ENTRY GOALS; INCREASE THE UNIFORMITY OF COMMERCIAL ENTRY PROCESSING; FACILITATE THE MOVEMENT OF CARGO; OVERSEE A SMOOTH TRANSITION INTO THE IMPLEMENTATION OF THE HARMONIZED TARIFF SCHEDULE; AND FOCUS OUR AUDIT CAPABILITIES ON FRAUD DETECTION AND VIOLATION OF TRADE AGREEMENTS BY ENHANCING THE USE OF COMPUTER ASSISTED AUDIT TECHNIQUES. WE WILL ALSO CONTINUE TO

Standard Classification Schedule
(Direct Obligations Only, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	3,981	3,997	3,997	0
Full time equivalent (FTE) positions	3,606	3,706	3,706	0
Object Classification				
Personnel compensation:				
Permanent positions	$112,412	$120,022	$123,832	$3,810
Positions other than permanent	2,926	1,732	1,777	45
Other personnel compensation	12,233	13,573	20,132	6,559
Special personal services payments	192	197	202	5
Total personnel compensation	127,763	135,524	145,943	10,419
Personnel benefits	33,219	35,970	39,093	3,123
Benefits for former personnel	73	76	79	3
Travel and transportation of persons	9,195	10,737	11,340	603
Transportation of things	1,337	1,412	1,472	60
Rents, communications and utilities:				
Rental payments to GSA	17,978	20,023	22,704	2,681
Rental payments to others	869	1,358	1,425	67
Other rents, comm., and utilities	10,776	12,728	13,262	534
Printing and reproduction	1,124	1,170	1,219	49
Other services	15,852	17,612	17,259	(353)
Supplies and materials	6,083	6,675	7,335	660
Equipment	12,792	23,116	13,987	(9,129)
Insurance claims and indemnities	155	160	166	6
Total obligations	$237,216	$266,561	$275,284	$8,723
Unobligated balance available, SOY	0	(2,490)	0	2,490
Unobligated balance available, EOY	2,490	0	0	0
Unobligated balance lapsing	506	0	0	0
Total appropriation, proposed authorized level and budget estimate	$240,212	$264,071	$275,284	$11,213

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Bureau of Alcohol, Tobacco and Firearms, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS

	FY 1989 Actual	FY 1990 Authorized	FY 1991 Budget Estimate
Direct Program:			
ES-6	1	1	1
ES-5	0	0	0
ES-4	6	6	6
ES-3	3	3	3
ES-2	5	6	6
ES-1	2	2	2
Subtotal	17	18	18
GS/GM-15	54	54	54
GS/GM-14	193	193	193
GS/GM-13	740	744	744
GS-12	585	593	593
GS-11	502	505	505
GS-10	1	1	1
GS-9	430	430	430
GS-8	40	40	40
GS-7	476	476	476
GS-6	300	300	300
GS-5	312	312	312
GS-4	274	274	274
GS-3	47	47	47
GS-2	2	2	2
Subtotal	3,956	3,971	3,971
Ungraded	8	8	8
Total direct, permanent positions	3,981	3,997	3,997
Unfilled positions, end-of-year	(150)	(72)	(72)
Total direct, permanent employment, end-of-year	3,831	3,925	3,925

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MAKE EVERY EFFORT POSSIBLE TO ADDRESS THE NEEDS OF THE INCREASING NUMBER OF TRADE CONTROL PROGRAMS DESIGNED TO PROTECT DOMESTIC INDUSTRY.

UNIFORMITY

CUSTOMS HAS INSTITUTED SIGNIFICANT NEW PROCEDURES TO INSURE THE UNIFORMITY OF COMMERCIAL PROCESSING. IN JANUARY 1989, THE UNITED STATES ADOPTED THE HARMONIZED TARIFF SCHEDULES (HTS) WHICH CONTAIN ABOUT 14,000 COMMODITY BREAKDOWNS. THE HARMONIZED SYSTEM PROVIDES THE U.S. AND OTHER TRADING NATIONS WITH A UNIFORM BASIS FOR CLASSIFYING MERCHANDISE AND IS USED BY U.S. EXPORTERS AS THE BASIS FOR CLASSIFICATION OF EXPORTS. OVERALL, THE HARMONIZED SYSTEM HAS DIMINISHED PAPERWORK REQUIREMENTS AMONG PARTICIPATING COUNTRIES AND SET THE STAGE FOR AUTOMATED POINT TO POINT CLEARANCE OF GOODS TRANSFERRED FROM ONE COUNTRY TO ANOTHER.

IN ADDITION, CUSTOMS HAS IMPLEMENTED A NEW 30-DAY CLASSIFICATION SYSTEM WHICH MAKES IMPORTING MORE UNIFORM, AND WHICH MAKES IT EASIER TO DETERMINE DUTY RATES IN ADVANCE. THE DISTRICT BINDING RULING PROGRAM HAS PROVIDED A MODERN AND COMMERCIALLY MEANINGFUL APPROACH TO FULFILLING CUSTOMS MISSION. TO DATE, IN EXCESS OF 15,000 RULINGS HAVE BEEN ISSUED AND, MOST IMPORTANTLY, NO DEADLINES HAVE BEEN MISSED.

ALSO PLANNED FOR EARLY 1990 IS A CAPABILITY FOR ELECTRONIC MAIL BETWEEN CUSTOMS AND AUTOMATED BROKER INTERFACE (ABI) USERS WHICH PROVIDES A FASTER, MORE EFFICIENT MEANS OF CORRESPONDING, RESULTING IN MORE TIMELY AND UNIFORM ACTION ON QUESTIONS AND ISSUES.

REGULATORY AUDIT

THE USE OF REGULATORY AUDITORS IS A KEY ELEMENT IN OUR MULTIDISCIPLINARY APPROACH TO CONTROLLING COMMERCIAL ACTIVITIES. MANY OF THE INNOVATIVE TECHNIQUES IMPLEMENTED IN OUR REGULATORY AUDIT PROGRAM ARE AIMED AT MAXIMIZING RESULTS. TO ENHANCE OUR AUDIT CAPABILITIES, WE HAVE AUTOMATED THE AUDIT PROCESS AND EXPANDED OUR CAPABILITY FOR IDENTIFYING AND TARGETING AUDIT CANDIDATES. OUR GOAL IS TO CONTINUE TO IMPROVE PRODUCTIVITY IN THE MANY AREAS OF AUDIT RESPONSIBILITY INCLUDING IMPROVING THE TIMELINESS OF COLLECTIONS BASED ON AUDIT RECOMMENDATIONS.

PRE-ENTRY CLASSIFICATION PROGRAM

WE DEVELOPED AND IMPLEMENTED A PRE-ENTRY CLASSIFICATION PROGRAM ON JANUARY 1, 1989. THE SYSTEM EXPANDS THE OVERSIGHT ROLE OF OUR NATIONAL IMPORT SPECIALISTS. INITIALLY WE HAVE IDENTIFIED HIGH VOLUME IMPORTERS AND COMMODITIES INVOLVING MULTIPLE PORTS OF ENTRY FOR PARTICIPATION IN THE PROGRAM.

FOR MOST REQUESTS, WE WILL ISSUE A BINDING RULING IN 30 DAYS OF THE REQUEST. MORE DIFFICULT AND FAR-REACHING ISSUES WILL CONTINUE TO BE DECIDED BY ATTORNEYS IN OUR HEADQUARTERS OFFICE OF REGULATIONS AND RULINGS. WE BELIEVE THE 30-DAY PERIOD IS SUFFICIENT TO RESPOND TO MOST CLASSIFICATION QUESTIONS. WITH THE IMPLEMENTATION OF THIS PROGRAM, ALL WRITTEN CLASSIFICATION ADVICE FROM CUSTOMS WILL BE BINDING. LINE REVIEW CLASSIFICATION DECISIONS GIVEN IN WRITING ARE ALSO BINDING.

THESE PROGRAMS HAVE BEEN DEVELOPED TO PROVIDE THE TIMELINESS AND UNIFORMITY WHICH IMPORTERS NEED, AS WELL AS PROVIDING A

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CONTROL POINT FOR CUSTOMS IN FACILITATING BOTH QUALITY AND UNIFORMITY IN OUR CLASSIFICATION DECISIONS.

COMMERCIAL FRAUD

CUSTOMS CONTINUES TO BE CONFRONTED WITH A GROWING FRAUD THREAT. PROHIBITED MERCHANDISE CONTINUES TO ENTER OUR DOMESTIC COMMERCE THROUGH THE USE OF FALSE DOCUMENTATION, COUNTERFEIT VISAS AND EXPORT LICENSES, USE OF THIRD COUNTRIES AS TRANSSHIPMENT POINTS, AND UNINTENTIONAL MISDESCRIPTION. IN ADDITION, REVENUE LOSSES ARE SUSTAINED DUE TO UNDERVALUATION AND THE SHIPMENT OF EXCESS MERCHANDISE NOT DECLARED UPON ENTRY.

THE SHIFT OF RESOURCES TO SIGNIFICANT FRAUD INVESTIGATIONS HAS PRODUCED EXCELLENT RESULTS IN RECENT YEARS. DOMESTIC INDUSTRIES HAVE BEEN PROTECTED FROM UNFAIR AND ILLEGAL INTERNATIONAL TRADE PRACTICES, AND THE GOVERNMENT HAS RECEIVED SUBSTANTIAL MONETARY RETURNS FROM CRIMINAL FINES AND CIVIL PENALTIES. WE WILL CONTINUE TO USE MULTIDISCIPLINED FRAUD TEAMS, WHICH EMPLOY THE EXPERTISE OF SPECIAL AGENTS, IMPORT SPECIALISTS, INSPECTORS, REGULATORY AUDITORS, LEGAL COUNSEL, AND TECHNICAL STAFF. HIGH-RISK COMMODITIES SUCH AS TEXTILES, WEARING APPAREL, STEEL, COFFEE, AND ELECTRONICS WILL CONTINUE TO BE TARGETED, AS WILL THE DETECTION OF COPYRIGHT AND TRADEMARK VIOLATIONS. INCREASED PROSECUTION AND PENALTIES FROM THESE INVESTIGATIONS WILL PLAY A MAJOR ROLE IN ENSURING THAT REVENUES ARE COLLECTED AND THAT THE INTEGRITY OF TRADE AGREEMENTS IS MAINTAINED.

CUSTOMS WILL CONTINUE TO GIVE COMMERCIAL FRAUD A HIGH

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PRIORITY, PARTICULARLY THE PROBLEM OF TRANSSHIPMENT WHICH CONTINUES TO CONCERN US FROM BOTH A REVENUE LOSS PERSPECTIVE AND AS A TRADE POLICY ISSUE. TRANSSHIPMENT OF GOODS CAN OCCUR FOR PRACTICALLY ANY FRAUDULENT PURPOSE AND IS GENERALLY ACCOMPLISHED BY FALSIFYING THE COUNTRY OF ORIGIN. IN THE NEXT TWO YEARS, CUSTOMS WILL BE PAYING INCREASED ATTENTION TO CASES WITH A HIGH EXPECTATION OF REVENUE RECOVERIES AND ENFORCEMENT OF TRADE PROTECTION LAWS.

CUSTOMS FIELD LABORATORIES

AS PART OF CUSTOMS OVERALL COMMERCIAL AND ENFORCEMENT EFFORT, CUSTOMS FIELD LABORATORIES HAVE SIGNIFICANTLY EXPANDED THEIR ROLE IN SUPPORTING INVESTIGATIONS OF COMMERCIAL FRAUD, PROVIDING ANALYTICAL DATA NEEDED TO DETERMINE ADMISSIBILITY, ASSESSING THE PROPER DUTY OF IMPORTED MERCHANDISE, AND IN CONDUCTING EFFECTIVE FORENSIC INVESTIGATIONS. SIGNIFICANT PROGRESS WAS MADE IN FY 1989 TOWARD UPDATING AND REPLACING OBSOLETE LABORATORY INSTRUMENTATION. A MAJOR THRUST DURING FY 1990 AND FY 1991 WILL BE TO EMPLOY HIGHLY SOPHISTICATED INSTRUMENTATION NEEDED TO PROVIDE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS. ANOTHER TOP PRIORITY OF THE LABORATORY SYSTEM WILL BE TO DEVELOP NEW LABORATORY METHODOLOGY TO ACCOMMODATE THE HARMONIZED TARIFF SCHEDULES. IN A TRADE SENSITIVE WORLD, A PARTICULARLY CRITICAL ISSUE FOR THE LABORATORIES IS THE DETERMINATION OF THE COUNTRY OF ORIGIN OF VARIOUS COMMODITIES.

FINES, PENALTIES, AND FORFEITURES

OUR MAJOR OBJECTIVES FOR THE FINES, PENALTIES, AND

FORFEITURES (FP&F) PROGRAM WILL BE TO: FURTHER ENHANCE THE NATIONAL FP&F AUTOMATED SYSTEM; STANDARDIZE FP&F FIELD PRACTICES AND PROCEDURES; AND ESTABLISH PROCEDURES FOR PROMPT COLLECTION OF FINES, PENALTIES AND LIQUIDATED DAMAGES. AUTOMATING OUR WORKLOAD WILL ENABLE US TO PROVIDE CONSISTENT, LEGALLY SUFFICIENT NOTICES TO VIOLATORS, AS WELL AS HELP TO ENSURE PROMPT ACTION ON CASES BY FACILITATING INQUIRIES ON CASE STATUS. WE PLAN TO CONTINUE OUR EFFORTS TO COLLECT OUTSTANDING FP&F DEBTS AND REDUCE CASE BACKLOGS.

U.S./CANADA FREE TRADE AGREEMENT

THE U.S./CANADA FREE TRADE AGREEMENT (FTA), IMPLEMENTED JANUARY 2, 1989, CREATES THE WORLD'S LARGEST FREE TRADE AREA. IT IS THE MOST HISTORIC, FAR-REACHING TRADE AGREEMENT EVER CONCLUDED, BREAKING NEW GROUND IN REMOVING BARRIERS TO TRADE IN AREAS OF TARIFFS, INVESTMENTS, SERVICES, AGRICULTURE, AND BUSINESS TRAVEL. IN FY 1990 AND 1991, WE WILL CONTINUE IMPLEMENTATION AND PHASED-IN USER FEE REDUCTIONS AND ACCELERATED DUTY REDUCTIONS.

AUTOMATED COMMERCIAL SYSTEM (ACS)

ACS IS CUSTOMS COMPREHENSIVE AUTOMATED SYSTEM FOR TRACKING AND CONTROLLING COMMERCIAL PROCESSING. THE SYSTEM IS NOW PROCESSING A GROWING VOLUME OF MERCHANDISE ENTRIES, REVENUE COLLECTIONS, ENTRY LIQUIDATIONS, AND AN INCREASING NUMBER OF BROKER TRANSACTIONS. THE NUMBER OF CUSTOMS AND TRADE COMMUNITY SYSTEMS USERS GREW SUBSTANTIALLY DURING FY 1989. CURRENTLY, OVER 80 PERCENT OF ALL ENTRY SUMMARIES ARE TRANSMITTED VIA AUTOMATED

BROKER INTERFACE (ABI). THE SUCCESS OF THIS PROGRAM IS AN EXCELLENT EXAMPLE OF GOVERNMENT AND PRIVATE INDUSTRY COOPERATION.

SIGNIFICANT NEW CAPABILITIES HAVE BEEN IMPLEMENTED, BRINGING ACS EVER CLOSER TO MEETING THE FULL NEEDS OF ITS USERS AND TO OUR GOAL OF COMPLETELY AUTOMATING COMMERCIAL PROCESSING. THESE NEW CAPABILITIES INCLUDE: IMPORTER PAYMENT OF ESTIMATED DUTIES AND TAXES VIA ELECTRONIC FUNDS TRANSFER AND OPERATIONAL PROGRAMS FOR ELECTRONIC (PAPERLESS) ENTRY AND ENTRY SUMMARY PROCESSING. TODAY, OVER 60 PERCENT OF INWARD OCEAN BILLS OF LADING ARE CAPTURED ELECTRONICALLY THROUGH THE AUTOMATED MANIFEST SYSTEM (AMS), WHICH PROMOTES PAPERLESS PROCESSING WHILE PROVIDING ENHANCED ENFORCEMENT AND AUDIT CAPABILITIES. AMS IS CURRENTLY IN 71 PORTS AND FURTHER EXPANSION IS PLANNED FOR FY 1990 AND 1991.

CARGO SELECTIVITY

CARGO SELECTIVITY IS DESIGNED TO IDENTIFY LOW-RISK CARGO FOR QUICK PROCESSING WITH SUBSTANTIAL SAVINGS IN PERSONNEL RESOURCES. CARGO SELECTIVITY HAS BEEN ENHANCED TO INCORPORATE A COMPREHENSIVE TRACK RECORD OF IMPORTERS AND COMMODITIES. DISCREPANCIES FOUND DURING CARGO EXAMINATION WILL BE WRITTEN INTO THE HISTORY FILE. ULTIMATELY, THE SYSTEM WILL PERMIT US, THROUGH THE USE OF PRE-PROGRAMMED CRITERIA, TO PROCESS SELECTED CARGO AND ENTRIES WITH A MINIMUM OF HARD COPY DOCUMENTATION.

COLLECTIONS AND DEPOSITS

CONFORMING WITH THE FEDERAL MANAGERS FINANCIAL INTEGRITY ACT (FMFIA), ACS FINANCE SYSTEM COLLECTION AND DEPOSIT PROCESSING WAS RECENTLY OVERHAULED. IMPROVEMENTS ON ACCOUNTS RECEIVABLE,

DEPOSITS IN TRANSIT, UNTIMELY DEPOSIT REPORTS, TRACKING OF SERIALLY NUMBERED FORMS TO INDIVIDUAL INSPECTORS, AND A REVISED DEBIT VOUCHER PROCESS ARE UNDERWAY.

THE AUTOMATED CLEARING HOUSE (ACH), AN ELECTRONIC PAYMENT SYSTEM, REPLACES PAPER CHECKS, AND WILL BE THE PREFERRED PAYMENT METHOD FOR ABI. THE SYSTEM BECAME OPERATIONAL IN JANUARY 1990. PLANS ARE CURRENTLY UNDERWAY FOR AN EXPANSION OF THE ACH CAPABILITY TO ALLOW THE PAYMENT OF CUSTOMS BILLS.

INTERNATIONAL AFFAIRS

THERE HAS BEEN AN EXPLOSION OF GROWTH IN THE GLOBAL INTEREST AND APPLICATION OF CUSTOMS PROGRAMS. THIS GROWTH REQUIRES AN INTERNATIONAL STRATEGY THAT RESPONDS AND COORDINATES OUR SUPPORT OF INTERNATIONAL COMMERCIAL AND INSPECTIONAL PROGRAMS. CUSTOMS RELATIONSHIPS WITH ITS FOREIGN COUNTERPARTS CONTINUE TO BE CRITICAL. THERE IS INCREASED INTEREST IN BILATERAL AGREEMENTS. CURRENTLY, THERE ARE FORMAL AGREEMENTS WITH 12 NATIONS. CUSTOMS IS PRESENTLY IN THE PROCESS OF NEGOTIATING, RATIFYING OR SIGNING AGREEMENTS WITH 10 MORE COUNTRIES.

CUSTOMS HAS, AS YOU KNOW, MADE SIGNIFICANT CONTRIBUTIONS IN THE NEGOTIATION OF THE INTERNATIONAL CONVENTION AGAINST ILLICIT TRAFFIC IN NARCOTIC DRUGS AND PSYCHOTROPIC SUBSTANCES. THE SENATE RATIFICATION OF THE CONVENTION WILL PROVIDE THE MUCH NEEDED SUPPORT IN THE CUSTOMS AREAS OF ASSET FORFEITURE, COMMERCIAL CARRIERS, MAIL, FREE TRADE ZONES, LAW ENFORCEMENT ASSISTANCE AND COOPERATION, AND PRECURSOR CHEMICALS.

THE U.S. CUSTOMS SERVICE HOSTED THE 1989 PLENARY MEETING OF

THE CUSTOMS COOPERATION COUNCIL (CCC) THIS PAST SUMMER. IT WAS AT THIS MEETING THAT THE CUSTOMS SERVICE CONVINCED THE CCC TO ADOPT THE U.S. PROPOSED WASHINGTON DECLARATION, FOR UNDERTAKING A COMPREHENSIVE INITIATIVE FOR SIMPLIFYING, STANDARDIZING, AND HARMONIZING CUSTOMS PROCEDURES.

USER FEES

CURRENTLY, CUSTOMS COLLECTS USER FEES FOR A VARIETY OF SERVICES MANDATED BY THE CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT OF 1985 (COBRA). THE COBRA FEES WERE EFFECTIVE ON JULY 7, 1986, AND COVER SERVICE PROVIDED PRIMARILY FOR CONVEYANCES (TRUCKS, RAILCARS, VESSELS, PRIVATE YACHTS/AIRCRAFT, ETC.) AND PASSENGER-RELATED (AIR AND SEA) CUSTOMS PROCESSING. ON DECEMBER 1, 1986, AN ADDITIONAL USER FEE WAS MANDATED BY THE OMNIBUS BUDGET RECONCILIATION ACT OF 1986 (OBRA), FOR THE COSTS OF PROCESSING COMMERCIAL MERCHANDISE. THE MERCHANDISE PROCESSING FEE (MPF) IS CURRENTLY AN AD VALOREM FEE OF 0.17 PERCENT ASSESSED ON THE VALUE OF COMMERCIAL MERCHANDISE ENTRIES. BOTH FEES ARE SCHEDULED TO END ON SEPTEMBER 30, 1990.

IN RESPONSE TO COMPLAINTS FROM MEMBER NATIONS OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) ORGANIZATION, THE MPF WAS FOUND TO BE IN VIOLATION OF GATT RULES PRIMARILY BECAUSE THE AD VALOREM FEE WAS NOT DIRECTLY LINKED TO COSTS OF SERVICES RENDERED AND BECAUSE REVENUES COLLECTED WERE IN EXCESS OF CUSTOMS PROCESSING COSTS.

IN ORDER TO COMPLY WITH THE GATT DECISION, THE ADMINISTRATION WILL BE SUBMITTING FY 1991 LEGISLATION PROPOSING

THAT THE CURRENT AD VALOREM RATES BE REPLACED BY A MODIFIED AD VALOREM RATE SYSTEM WHICH INCLUDES A CAP ON THE AMOUNT PAID. AS CURRENTLY ENVISIONED, THIS NEW FEE WILL APPROXIMATE AS CLOSELY AS POSSIBLE THE COSTS OF THESE OPERATIONS. THE LEGISLATION ALSO WILL INCLUDE A RENEWAL OF THE COBRA TYPE FEES, PERMITTING USE OF THESE FEES FOR REGULAR PROCESSING.

INSPECTION AND CONTROL

CUSTOMS INSPECTORS ARE STATIONED AT OUR AIR, LAND, AND SEAPORTS TO PROCESS PERSONS, CARGO, AND CARRIERS ENTERING THE UNITED STATES AND TO ENFORCE OUR TRADE LAWS.

CUSTOMS INSPECTORS HAVE IMPROVED ENFORCEMENT EFFECTIVENESS AND CARGO FACILITATION BY SWITCHING TO MORE SELECTIVE INSPECTIONS. THIS HAS BEEN MADE POSSIBLE BY THE INTRODUCTION OF COMPUTER-ASSISTED ENTRY PROCESSING. THE RESULTS OF SELECTIVITY HAVE BEEN BETTER FACILITATION FOR PASSENGERS AND CARGO, MORE EFFICIENT USE OF RESOURCES, AND IMPROVED ENFORCEMENT.

INCLUDED IN THIS PROGRAM ARE COOPERATIVE EFFORTS WITH FOREIGN CUSTOMS SERVICES WHICH PROVIDE PRE-ARRIVAL INFORMATION OF PASSENGERS FROM HIGH-RISK COUNTRIES; INCREASED EMPHASIS ON HIGH-RISK PRIVATE AIRCRAFT AND SMALL VESSELS; IMPROVED CANINE ENFORCEMENT; AND TESTING OF NEW EXAMINATION/ENFORCEMENT SYSTEMS FOR CARGO CONTROL.

CUSTOMS HAS INSTALLED AUTOMATED PASSPORT READERS AT EVERY MAJOR U.S. AIRPORT TO STREAMLINE COMPUTER CHECKS AND THUS, THE ENTIRE INSPECTION PROCESS. CUSTOMS IS WORKING WITH AIRLINES AND AIRPORTS TO FURTHER CAPITALIZE ON THE LATEST TECHNOLOGY TO

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OPTICALLY READ INTERNATIONAL TRAVEL DOCUMENTS, AND WITH THE IMMIGRATION AND NATURALIZATION SERVICE (INS) WE HAVE BEGUN CONSOLIDATING AND STREAMLINING INSPECTION FUNCTIONS AT AIRPORTS. ALL OF THESE EFFORTS WILL RESULT IN IMPROVED PASSENGER PROCESSING AND WILL MAXIMIZE THE LAW ENFORCEMENT CAPABILITIES OF BOTH INS AND CUSTOMS.

UPGRADED INSPECTION AT THE SOUTHWEST BORDER

CUSTOMS IS REQUESTING $10 MILLION AND 175 FTE TO UPGRADE INSPECTIONS ALONG THE SOUTHWEST BORDER. THESE RESOURCES WILL PROVIDE FOR AN INCREASE IN THE DETECTION OF NARCOTICS. THE ADDITION OF THESE PERSONNEL WILL ALSO REDUCE THE DELAYS NORMALLY ACCOMPANYING INTENSIVE INSPECTIONS AND INCREASE THE DETECTION OF COMMERCIAL VIOLATIONS.

CANINE ENFORCEMENT PROGRAM

CUSTOMS CANINE ENFORCEMENT PROGRAM IS INTEGRATED INTO THE OVERALL CUSTOMS ENFORCEMENT STRATEGY IN TWO AREAS: DRUG DETECTION AND INTERAGENCY/INTERNATIONAL ASSISTANCE. CANINE PROGRAM RESOURCES ARE PRIMARILY AIMED AT INTERDICTING NARCOTICS; HOWEVER, OUR TRAINING CENTER IN FRONT ROYAL, VIRGINIA, ASSISTS THE LAW ENFORCEMENT COMMUNITY AND FOREIGN GOVERNMENTS BY TRAINING CANINE OFFICERS. THE COOPERATIVE EFFORT GREATLY ENHANCES STATE AND LOCAL NARCOTICS TASK FORCES AND CONTRIBUTES SIGNIFICANTLY TO THE INTERNATIONAL SEIZURE OF DRUGS DESTINED FOR THE UNITED STATES. WE HAVE INITIATED A CANINE PILOT PROJECT TO USE TRAINED COCKER SPANIELS TO DETECT NARCOTICS IN INTERNATIONAL AIRPORT PASSENGER PROCESSING AREAS.

TO SUPPORT THE SUCCESS OF THIS PROGRAM, CUSTOMS IS REQUESTING $5,400,000 AND 23 FTE IN FY 1991 TO EXPAND THE TRAINING CENTER AND TO INCREASE CANINE ENFORCEMENT. EXPANSION OF THE CANINE TRAINING CENTER WILL INCREASE THE CAPACITY OF THE FACILITY BY 80 TEAMS ANNUALLY AND ALLOW IT TO BE UTILIZED THROUGHOUT THE YEAR. IN ADDITION TO PROVIDING A PROVEN EFFECTIVE INTERDICTION PROGRAM, RESOURCES ADDED TO THE CANINE ENFORCEMENT PROGRAM HAVE A FACILITATING IMPACT ON THE SCREENING OF CONVEYANCES, CARGO, AND PASSENGERS.

SPECIAL OPERATIONS

RECENTLY CUSTOMS HAS PURSUED SPECIAL OPERATIONS TO IMPROVE ENFORCEMENT EFFORTS - OPERATION WINTERNIGHT AND INNOVATIVE CARRIER PROGRAMS.

OPERATION WINTERNIGHT IS A JOINT CUSTOMS/DEA PROGRAM WHEREBY DEA FIELD OFFICES IN CENTRAL AND SOUTH AMERICA ARE REPORTING NARCOTICS INTELLIGENCE INTO THE EL PASO INTELLIGENCE CENTER (EPIC) WHICH IS THEN INCORPORATED INTO THE CUSTOMS AUTOMATED COMMERCIAL SYSTEM (ACS) SELECTIVITY MODULE. WINTERNIGHT RESULTED IN THE DEVELOPMENT OF 1,649 NATIONAL NARCOTICS CRITERIA BEING PLACED WITHIN THE ACS SELECTIVITY MODULE. CRITERIA HAVE PLAYED A SIGNIFICANT ROLE IN THE SEIZURE OF 10 POUNDS OF HEROIN, 3,200 GALLONS OF ACETONE, 2 TONS OF MARIJUANA, AND 650 KILOS OF COCAINE.

WITH THE RECENT ADVENT OF THE CUSTOMS AUTOMATED MANIFEST MODULE (AMS), WITHIN THE ACS SYSTEM, CUSTOMS AND DEA FEEL THAT THE WINTERNIGHT PROGRAM CAN BE GREATLY ENHANCED TO TARGET HIGH-

RISK NARCOTICS SHIPMENTS IN COMMERCIAL CARGO. IN ADDITION, DEA AND CUSTOMS WILL BE LOOKING TO EXPAND THE WINTERNIGHT PROGRAM INTO SOUTHEAST ASIA.

IN EFFORTS TO ESTABLISH A DRUG-FREE WORK PLACE FOR COMMERCIAL CARRIERS, CUSTOMS IS INCREASING THE STANDARD OF CONTROL IN SUPER CARRIER AGREEMENTS. THE AGREEMENTS WILL BE TAILORED TO EACH CARRIER AND LOCATION DEPENDING ON RISK LEVELS AND MUST BE CERTIFIED BY THE INDIVIDUAL CARRIER AS BEING FULLY IMPLEMENTED. CUSTOMS WILL PERFORM SELECTIVE FOREIGN SURVEYS; IF THE CARRIER COMPLIES WITH ITS AGREEMENT, PENALTIES IN CASES OF NARCOTICS SMUGGLING MAY BE REDUCED.

AIRPORT SECURITY PROGRAM

THE PURPOSE OF THIS PROGRAM IS TO IDENTIFY THOSE INDIVIDUALS WHO REQUIRE UNESCORTED ACCESS TO CUSTOMS PROCESSING AREAS AND TO LIMIT THAT ACCESS TO THOSE INDIVIDUALS WHO DO NOT APPEAR TO POSE A THREAT TO THESE AREAS. SINCE IMPLEMENTATION, WE HAVE CONDUCTED CHECKS ON OVER 175,000 EMPLOYEES WHOSE DUTIES REQUIRE THEM TO HAVE ACCESS TO THE CUSTOMS AIRPORT PROCESSING AREAS. WE HAVE IDENTIFIED AND DENIED ACCESS TO 1,683 INDIVIDUALS WHO POSE A THREAT AND ARRESTED 172 PEOPLE BASED ON INFORMATION UNCOVERED. IN ADDITION, WE PROVIDE ONGOING TRAINING FOR OUR PERSONNEL ON LOCAL CONTINGENCY PLANS AND THE IDENTIFICATION AND INTERDICTION OF TERRORISTS.

U.S. - MEXICO COOPERATIVE EFFORTS

CUSTOMS HAS OPENED COMMUNICATIONS WITH MEXICAN CUSTOMS TO SOLVE SOME OF THE BOTTLENECKS THAT IMPEDE COMMERCIAL PROCESSING.

THIS EFFORT HAS LED TO EXPANDED REGULAR HOURS OF SERVICE; A COMMITMENT FROM MEXICAN CUSTOMS TO LIMIT THE RELEASE OF SHIPMENTS NOT READY FOR U.S. CUSTOMS PROCESSING; USE OF THE U.S. IMPORT LOTS AS PARKING LOTS; AND MEXICAN CUSTOMS DEVELOPMENT OF A PILOT AUTOMATED SYSTEM THAT WOULD ELIMINATE BATCH PROCESSING. THE LATTER PROJECT IS EXPECTED TO RESULT IN A SMOOTH FLOW OF TRUCK TRAFFIC FROM MEXICO.

RECENTLY, AN INNOVATIVE PROGRAM HAS BEEN DEVELOPED AT WESTERN PORTS FOR SPEEDING THE ENTRY OF ASSEMBLY PLANT GOODS (MAQUILADORAS) FROM MEXICO TO THE UNITED STATES. THE CUSTOMS SERVICES OF BOTH COUNTRIES HAVE AGREED TO TEST A TRIPARTITE AGREEMENT. IT IS DESIGNED TO FACILITATE THE ENTRY OF MAQUILADORA PRODUCTS WHILE MAINTAINING THE LEVEL OF VIGILANCE NECESSARY TO PREVENT THE SMUGGLING OF CONTRABAND. PLANTS THAT PASS SECURITY REQUIREMENTS AND MAINTAIN STANDARDS SET FORTH IN THE AGREEMENT WILL ENJOY THE BENEFITS OF RAPID CUSTOMS INSPECTIONAL PROCESSING.

LINE RELEASE

FIRST TESTED IN THE BUFFALO DISTRICT IN LATE 1986 FOR USE ALONG THE NORTHERN BORDER, LINE RELEASE HAS BEEN EXPANDED TO 41 SITES ALONG OUR NORTHERN AND SOUTHERN BORDERS. LINE RELEASE WAS DEVELOPED TO MEET THE INCREASING DEMANDS FOR EFFICIENT, TIMELY CUSTOMS PROCESSING OF TRUCK CARGO AND IS DESIGNED TO WORK WITHIN THE ACS SELECTIVITY SYSTEM. LINE RELEASE USES BAR CODE TECHNOLOGY FOR MONITORING AND TRACKING PRE-APPROVED, REPETITIVE, LOW-RISK SHIPMENTS WHILE ALLOWING CUSTOMS TO CONCENTRATE ON HIGH-

RISK SHIPMENTS. AS A RESULT, TRUCK TRAFFIC CONGESTION AT HIGH VOLUME LOCATIONS HAS BEEN REDUCED. CUSTOMS WILL INSTALL LINE RELEASE NETWORKING AT 11 ADDITIONAL SITES THIS FISCAL YEAR.

NORTHERN BORDER PROCESSING

THE ESTABLISHMENT OF COMMERCIAL CENTERS AND PERMIT PORTS ALLOWS CUSTOMS TO MORE EFFICIENTLY CONCENTRATE ITS RESOURCES, PARTICULARLY ITS CARGO EXAMINATION EQUIPMENT, AT SPECIFIC LOCATIONS. THE INITIAL TEST OF THE COMMERCIAL CENTER/PERMIT PORT SYSTEM WORKED VERY WELL SO THE SYSTEM WAS EXPANDED TO 27 DESIGNATED COMMERCIAL CENTERS, WHICH HANDLE OVER 90 PERCENT OF ALL NORTHERN BORDER CARGO. THE REMAINING PORTS ARE PERMIT PORTS. UNDER THE SYSTEM, AS MUCH CARGO IS FUNNELED TO THE COMMERCIAL CENTERS AS POSSIBLE, HOWEVER, LOW-RISK CARGO CAN ENTER AT OTHER PORTS UNDER CERTAIN SPECIFIED CONDITIONS. CURRENT STAFFING LEVELS, HOURS OF SERVICE, PASSENGER PROCESSING, INFORMAL ENTRIES AND NONCOMMERCIAL SHIPMENTS ARE NOT AFFECTED. EACH COMMERCIAL CENTER HAS LINE RELEASE.

ENFORCEMENT

THE CUSTOMS DRUG LAW ENFORCEMENT PROGRAM HAS BEEN DEVELOPED IN ACCORDANCE WITH THE 1990 NATIONAL DRUG CONTROL STRATEGY IN COORDINATION WITH THE OFFICE OF NATIONAL DRUG CONTROL POLICY. CONSISTENT WITH THE GOALS OF THE STRATEGY, THE CUSTOMS ENFORCEMENT EFFORT IS DIRECTED AT INTERDICTING THE ENORMOUS FLOW OF DRUGS CROSSING OUR BORDERS. AGAIN, AS DIRECTED BY THE STRATEGY, CUSTOMS PROGRAMS ATTACK THE DRUG TRAFFICKER DIRECTLY AT THE BORDER -- INCLUDING LAND, SEA, AND AIR -- AS WELL AS

ATTACKING THE MONEY NETWORK FINANCING THESE ILLICIT ACTIVITIES. WE BELIEVE THAT THIS COMPREHENSIVE ATTACK IS PAYING OFF AND THE SIZEABLE DRUG AND CURRENCY SEIZURES RECORDED CLEARLY DEMONSTRATE THE OVERALL SUCCESS OF THE EFFORT.

FINANCIAL LAW ENFORCEMENT PROGRAM

THE CUSTOMS FINANCIAL ENFORCEMENT PROGRAM FOCUSES ON THE ILLEGAL FLOW OF PROCEEDS OF MAJOR CRIMINAL ENTERPRISES. THE OBJECTIVES ARE TO INTERRUPT THAT FLOW, SEIZE THE ASSETS OF THE ENTERPRISE, AND FOLLOW UP WITH SUCCESSFUL PROSECUTIONS OF THE CONSPIRATORS AND THE ORGANIZATIONS VIOLATING THE MONEY LAUNDERING CONTROL ACT, AND/OR THE BANK SECRECY ACT (BSA).

THE CUSTOMS STRATEGY IS TO TARGET AND AGGRESSIVELY PURSUE MONEY LAUNDERING ORGANIZATIONS AT THE POINT OF THE INITIAL DISPOSAL OF THE CASH INTO INTERNATIONAL CHANNELS--THE "PLACEMENT STAGE". CUSTOMS IS DISRUPTING INTERNATIONAL FUND TRANSFER BY IDENTIFYING THE FUNDS, THE LAUNDERING METHODS, AND THE FINANCIAL INFRASTRUCTURE.

TO THIS END, CUSTOMS HAS BEEN AN ACTIVE PARTICIPANT IN ESTABLISHING THE FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN). FINCEN IS AN ALL SOURCE, ALL FINANCIAL CRIMES INTELLIGENCE INITIATIVE, WHICH INTEGRATES THE ANALYSIS OF DATA FROM FEDERAL, STATE AND LOCAL LAW ENFORCEMENT AND REGULATORY AGENCIES AS WELL AS FROM THE FINANCIAL, INDUSTRIAL AND PRIVATE SECTORS, BOTH IN THE UNITED STATES AND ABROAD.

THE FINANCIAL LAW ENFORCEMENT PROGRAM ALSO COMPRISES MULTI-AGENCY AND/OR INTERNATIONAL JOINT FINANCIAL TASK FORCES, LOCATED

IN CITIES THROUGHOUT THE UNITED STATES, AND OVER 20 FOREIGN COUNTRIES. IN FY 1989, THE FINANCIAL LAW ENFORCEMENT PROGRAM SEIZED $225 MILLION IN MONETARY INSTRUMENTS (A 37 PERCENT INCREASE OVER FY 1988); ISSUED $34.6 MILLION IN CIVIL PENALTIES (A 276 PERCENT INCREASE); AND SHARED $31.3 MILLION IN MONETARY INSTRUMENTS WITH STATE AND LOCAL LAW ENFORCEMENT AGENCIES (A 250 PERCENT INCREASE).

FOR FY 1990, CUSTOMS IS TRAINING FEDERAL, STATE, LOCAL AND FOREIGN LAW ENFORCEMENT OFFICIALS ON MANAGING FINANCIAL INTELLIGENCE; EXPANDING CUSTOMS INVOLVEMENT IN JOINT EFFORTS WITH FOREIGN LAW ENFORCEMENT AUTHORITIES TO DISRUPT INTERNATIONAL MONEY LAUNDERING ORGANIZATIONS; AND IMPROVING THE FINANCIAL INFORMATION EXCHANGE BETWEEN LAW ENFORCEMENT AND REGULATORY AGENCIES.

IN FY 1991, CUSTOMS GOALS ARE TO DEVELOP INFORMATION ON ADDITIONAL METHODS OF COMBATTING INTERNATIONAL MONEY LAUNDERING, DEVELOP A COMPUTERIZED REFERENCE LIBRARY FOR MONEY LAUNDERING LEGISLATION AND INVESTIGATIVE AUTHORITY THROUGHOUT THE WORLD, AND INCREASE THE NUMBER OF MONEY LAUNDERING INVESTIGATIONS. WE ARE REQUESTING AN INITIATIVE OF $1,574,000 TO CONTINUE OUR EFFORTS IN MONEY LAUNDERING INTERNATIONAL AND NATIONAL CRIMINAL INVESTIGATIONS.

<u>STATE, LOCAL, FEDERAL COOPERATION</u>

CUSTOMS EXPERIENCE HAS SHOWN THAT AN EFFECTIVE USE OF FEDERAL INTERDICTION RESOURCES IS ENHANCED BY JOINT EFFORTS WITH STATE AND LOCAL LAW ENFORCEMENT AGENCIES. TOWARD THIS END,

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CUSTOMS HAS UNDERTAKEN SEVERAL ONGOING JOINT INITIATIVES WITH STATE AND LOCAL ENFORCEMENT AGENCIES. THE BLUE LIGHTNING STRIKE FORCE IN THE SOUTHEASTERN UNITED STATES, INITIATED IN EARLY 1985, AND THE "ALLIANCE" PLAN, FOR THE SOUTHWEST BORDER, ARE PROVING THAT SUCCESSFUL RESULTS CAN BE OBTAINED FROM A COOPERATIVE ENFORCEMENT EFFORT. THE JFK NARCOTICS SMUGGLING UNIT IN NEW YORK, A JOINT EFFORT BETWEEN CUSTOMS AND THE DRUG ENFORCEMENT ADMINISTRATION, CONTINUES TO MAKE PROGRESS AGAINST CONSPIRACIES TO SMUGGLE NARCOTICS THROUGH THE NEW YORK AND NEW JERSEY PORTS. SIMILAR JOINT EFFORTS ARE BEING CONDUCTED IN SAN DIEGO.

ANOTHER IMPORTANT JOINT EFFORT INVOLVES BORDER INSPECTIONS. OPERATION GUARDIAN HAS PROVEN ESPECIALLY SUCCESSFUL ALONG THE SOUTHWEST BORDER AND IN SOUTH FLORIDA. IN THIS PROGRAM, THE NATIONAL GUARD IS TRAINED IN THE PHYSICAL EXAMINATION OF CARGO, PARTICULARLY CONTAINERS. THE GUARD HAS PARTICIPATED DIRECTLY IN THE SEIZURE OF OVER 7,900 POUNDS OF COCAINE, 6,800 POUNDS OF MARIJUANA, 15 POUNDS OF HEROIN, AND OVER $232,000 IN MERCHANDISE.

CHILD PORNOGRAPHY

CUSTOMS IS COMMITTED TO STOPPING THE IMPORTATION OF PORNOGRAPHY WHICH EXPLOITS CHILDREN. SPECIAL ENFORCEMENT TEAMS HAVE BEEN DEVELOPED THROUGHOUT THE COUNTRY TO INSPECT SUSPECT MAIL AND ARRANGE CONTROLLED DELIVERIES. AN INTELLIGENCE DATA BASE OF SUSPECT COUNTRIES, COMPANIES AND IMPORTERS WILL BE EXPANDED IN FY 1991.

INTELLIGENCE

INTELLIGENCE PLAYS A KEY ROLE IN ENFORCEMENT OPERATIONS AND

MANAGEMENT DECISIONS IN THE AREAS OF NARCOTICS ENFORCEMENT, CRITICAL TECHNOLOGY, COMMERCIAL FRAUD AND FINANCIAL ANALYSIS. CUSTOMS INTELLIGENCE REQUIREMENTS HAVE BEEN COMMUNICATED TO THE INTELLIGENCE COMMUNITY, OTHER FEDERAL AND STATE LAW ENFORCEMENT AGENCIES, AND ALL CUSTOMS ELEMENTS. THESE COLLECTION REQUIREMENTS HAVE INCREASED THE FLOW OF PERTINENT INFORMATION FROM THE INTELLIGENCE COMMUNITY WHICH IS THEN PROCESSED AND DISSEMINATED TO FRONT-LINE CUSTOMS AGENTS AND INSPECTORS WORLDWIDE.

CUSTOMS HAS DEVELOPED A CAPABILITY WHEREBY SUSPICIOUS CURRENCY MOVEMENT IS TARGETED BY COMPUTER, BASED ON "EXPERT SYSTEM" RULES. THE SYSTEM THUS FAR HAS TARGETED THE FINANCIAL ACTIVITIES OF OVER 400 INDIVIDUALS OR COMPANIES. THIS CAPABILITY WILL SOON BE EXPANDED TO OTHER AREAS OF CUSTOMS INTEREST.

EXPORT ENFORCEMENT

THE CUSTOMS EXODUS PROGRAM IS A MAJOR ENFORCEMENT EFFORT DIRECTED AGAINST VIOLATIONS OF THE ARMS EXPORT CONTROL ACT AND THE EXPORT ADMINISTRATION ACT AS AMENDED IN 1985. THESE VIOLATIONS TYPICALLY INVOLVE THE ILLEGAL EXPORT OF SENSITIVE TECHNOLOGIES, CRITICAL ITEMS OF EQUIPMENT, ARMS, MUNITIONS, WEAPONS SYSTEMS, AND COMPUTER SYSTEMS FROM THE U.S. TO PROHIBITED FOREIGN DESTINATIONS. THE SCOPE OF THE EXODUS EFFORT HAS ALSO BEEN EXPANDED TO INCLUDE ENFORCEMENT OF SANCTIONS AND EMBARGOES.

THE EXODUS PROGRAM HAS MOVED INTO INCREASINGLY SOPHISTICATED AREAS INVOLVING MISSILE TECHNOLOGY, NUCLEAR TECHNOLOGY, AND ADVANCED WEAPONS SYSTEMS. THE PROGRAM HAS DEMONSTRATED THE

EXISTENCE OF A BROAD NETWORK OF INTERNATIONAL FRONT COMPANIES, MULTINATIONAL CONSPIRACIES, AND COMPLEX DIVERSION SCHEMES THAT POSE A MAJOR AND GROWING THREAT TO NATIONAL SECURITY.

FROM THE INCEPTION OF THE PROGRAM, THERE HAVE BEEN 6,987 SEIZURES OF MERCHANDISE VALUED IN EXCESS OF $511 MILLION, 1,070 ARRESTS, AND 688 CONVICTIONS FOR EXPORT VIOLATIONS.

IN CONJUNCTION WITH THE DRUG ENFORCEMENT ADMINISTRATION, WE ARE WORKING TO IDENTIFY SHIPMENTS AND EXPORTERS OF PRECURSOR CHEMICALS BEING DIVERTED TO THE PROCESSING OF ILLEGAL DRUGS. ANOTHER RECENT INITIATIVE INVOLVES THE ISSUANCE OF NEW REGULATIONS ON THE EXPORT OF USED CARS IN AN EFFORT TO INTERDICT STOLEN VEHICLES.

AVIATION PROGRAM

AIR INTERDICTION IS AN INTEGRAL COMPONENT OF THE FEDERAL WAR ON DRUGS. DRUG SMUGGLING ORGANIZATIONS HAVE ACCESS TO HUGE SUMS OF MONEY TO PURCHASE WELL-EQUIPPED AIRCRAFT AND SOPHISTICATED EQUIPMENT TO EVADE DETECTION AND TO ELUDE INTERDICTION EFFORTS OF CUSTOMS AIR UNITS. IN ORDER TO EFFECTIVELY DISRUPT THIS THREAT, CUSTOMS STRATEGY HAS BEEN TO ACQUIRE STATE-OF-THE-ART EQUIPMENT, CONFIGURED INTO AIR INTERDICTION MODULES THAT ARE CONTROLLED AND DIRECTED BY A CENTRALIZED COMMAND STRUCTURE.

AIRCRAFT CURRENTLY OPERATED BY CUSTOMS INCLUDE: JET INTERCEPTORS EQUIPPED WITH RADAR AND INFRARED DETECTION SENSORS, HIGH PERFORMANCE HELICOPTERS, SINGLE AND MULTI-ENGINE SUPPORT AIRCRAFT, AND AIRBORNE DETECTION PLATFORMS. RADAR EQUIPPED AEROSTATS PROVIDE ADDITIONAL DETECTION AND TRACKING CAPABILITIES.

THREE AEROSTATS ARE OPERATIONAL AND THREE AEROSTATS ARE UNDER DEVELOPMENT ALONG THE SOUTHWEST BORDER. FURTHER, CUSTOMS IS ACQUIRING AND MODIFYING ADDITIONAL CITATION II AIRCRAFT, WHICH WILL BRING US TO THE MODULE DESIGN LEVEL FOR INTERCEPTORS. DURING FY 1989, CUSTOMS ACCEPTED DELIVERY OF SEVEN NOMAD AIRCRAFT ENABLING CUSTOMS TO SUBSTANTIALLY INCREASE ITS EFFECTIVENESS AT MARINE THREAT DETECTION. IN ADDITION, A SECOND MODIFIED P-3AEW BECAME OPERATIONAL IN APRIL 1989.

IN FY 1989, THE AVIATION PROGRAM SEIZED 71,104 POUNDS OF COCAINE (UP 26 PERCENT) AND MADE 548 ARRESTS (UP 16 PERCENT).

ULTIMATELY, THE OVERALL EFFECTIVENESS OF THE FULL AVIATION PROGRAM IS DEPENDENT UPON THE C3I SYSTEM AND DETECTION NETWORK OF AIRBORNE AND GROUND-BASED RADARS. CUSTOMS BELIEVES THAT THE CONTINUED IMPLEMENTATION OF STRONG CENTRALIZED MANAGEMENT OF ASSETS AND THE BUILD-UP OF C3I WILL RESULT IN OPTIMUM USE AND FLEXIBILITY IN THE DEPLOYMENT OF ASSETS, THEREBY INCREASING THE EFFECTIVENESS OF CUSTOMS RESPONSE TO THE DYNAMIC AND EVER CHANGING SMUGGLING THREAT.

DURING FY 1990, THE REMAINING AEROSTATS ALONG THE SOUTHWEST BORDER WILL BE IN DEVELOPMENT. WE WILL INITIATE ACTION TO PROCURE AND MODIFY TEN ADDITIONAL INTERCEPTOR AIRCRAFT AND ACQUIRE AND MODIFY ONE ADDITIONAL P-3 TO THE P-3AEW CONFIGURATION; FOR BOTH DELIVERY WILL BEGIN IN FY 1991.

DURING FY 1991, WE WILL ACCEPT DELIVERY OF THE FIRST TWO INTERCEPTOR AIRCRAFT PROCURED AND MODIFIED DURING FY 1990. THE AVIATION PROGRAM WILL CONTINUE TO INTEGRATE ALL NEWLY ACQUIRED

ASSETS AND PERSONNEL TO ENHANCE ALL INTERDICTION ACTIVITIES AND PROVIDE INCREASED SUPPORT TO OTHER FACETS OF CUSTOMS INTERDICTION AND ENFORCEMENT OPERATIONS.

MARINE PROGRAM

THE CUSTOMS MARINE PROGRAM PROTECTS THE SEA APPROACHES OF THE NATION'S BORDERS. TO COUNTER THE INCREASED SMUGGLING BY PLEASURE CRAFT AND FISHING VESSELS, CUSTOMS IS WORKING TO IMPROVE ITS DETECTION, SORTING, INTERCEPTION, TRACKING AND APPREHENSION CAPABILITIES. MAJOR EMPHASIS IS ON DETECTING HIGH-RISK TARGETS FROM LEGITIMATE TRAFFIC, WHICH SHOULD RESULT IN INCREASING SEIZURES.

THE BLUE LIGHTNING OPERATIONS CENTER (BLOC) AT MIAMI IS NOW COLLOCATED AT THE C3I-EAST FACILITY. BLOC FUNCTIONS INCLUDE DETECTION, SECURE COMMUNICATIONS, AND ACCESS TO AN INTELLIGENCE DATA BASE AS WELL AS EXERCISING COMMAND AND CONTROL OVER NUMEROUS FEDERAL, STATE AND LOCAL LAW ENFORCEMENT RESOURCES.

FY 1989 WAS A HIGHLY SUCCESSFUL YEAR FOR THE CUSTOMS MARINE PROGRAM. MARINE PERSONNEL CONDUCTED 8,627 LAW ENFORCEMENT BOARDINGS AND WERE RESPONSIBLE FOR THE SEIZURE OF 39,897 POUNDS OF COCAINE, 159,378 POUNDS OF MARIJUANA, 50,404 POUNDS OF HASHISH, 254 SMUGGLING VESSELS AND 48 SMUGGLING AIRCRAFT, ALONG WITH ARRESTING 932 DRUG SMUGGLERS.

SUMMARY

IN CARRYING OUT ITS COMMERCIAL AND ENFORCEMENT MISSIONS, CUSTOMS MUST BALANCE THE REQUIREMENTS FOR FACILITATING THE LEGITIMATE MOVEMENT OF PASSENGERS AND CARGO INTO THE UNITED

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STATES WHILE ENFORCING OUR NATION'S LAWS. MAINTAINING THIS DELICATE BALANCE REQUIRES THAT CUSTOMS USE ALL AVAILABLE RESOURCES MOST EFFICIENTLY AND THAT IT CLOSELY COORDINATE WITH ALL PARTICIPANTS IN THE TRADE COMMUNITY. I BELIEVE CUSTOMS HAS MADE GREAT STRIDES IN MEETING THESE OBJECTIVES. WE WILL CONTINUE TO IMPROVE ON THOSE EFFORTS.

THIS CONCLUDES MY STATEMENT.

I AM READY TO DISCUSS THE DETAILS OF THE REQUEST AND ANSWER YOUR QUESTIONS AND THOSE OF THE SUBCOMMITTEE MEMBERS.

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Ms. Hallett's Opening Remarks

Ms. Hallett. Thank you very much, Congressman Akaka.

We appreciate very much the opportunity to appear before you and the subcommittee, and particularly to have this opportunity to discuss the fiscal year 1991 budget request for the Customs Service.

I have with me this morning our Deputy Commissioner, Mike Lane; from our Office of Budget, Harry Denning; and of course representing the Department of Treasury is Deputy Assistant Secretary, David Nummy.

I would like to start out by talking about the proposal, because it will allow not only for maintaining our current operating levels, but we also are looking at selected operational enhancements.

This being my first time before the subcommittee, I would like to be able to talk briefly about how I view Customs, where I see the organization going, and particularly those areas in which I intend to concentrate particularly early on.

First of all, how I view Customs. At this point, given my brief tenure, there are a number of things that I have had an opportunity to review throughout our portfolio, not only activities that I have witnessed first-hand in the field, but through meetings and briefings.

Last month I had a number of site visits. It really is apparent to me that in the last few years Customs has received significant support from Congress—from this subcommittee in particular, which has translated into much needed strengthening of certainly our commercial operations, as well as our enforcement capabilities. And for that we are very grateful.

The strengthening of commercial operations and the enforcement capability really take me to my next point, and that is where I do see Customs going.

Really, the concepts under which Customs has been brought together in our mission, the examination of cargo, certainly collecting revenue, that has served the Nation well for many years.

While these concepts are still in place today, the Customs mission has obviously become very complex. In every hour of every day in over 300 ports and sublocations, Customs collects fees, taxes and duties ranging from a few dollars to obviously multi-millions.

At the same time, we are screening passengers, cargo and conveyances for illegal cargo as well, specifically narcotics.

And so these activities are part of a multi-dimensional mission which encompasses not only enforcement and the administration of over 400 laws ranging from simple detentions to merchandise and major seizures of conveyances, and to very complex investigations of really huge commercial frauds and major narcotics smuggling conspiracies.

Then, built into this multi-faceted mission is an operational contradiction which continues to challenge the Customs Service, namely the timely facilitation of cargo, on the one hand, versus ensuring compliance with the law on the other. It is a very important balancing act.

It seems to me that we can meet this challenge if in this current fiscal year we begin to position ourselves properly. I guess I would say in the strategic sense, to allow for sustaining our momentum in

commercial operations, our modernization and also in narcotics interdiction, but taking advantage of those enhancements for which Customs has worked so hard.

I would say, in my final point, that if we are going to encompass all of those elements on which I intend to concentrate in the near term, as well as beyond, then I think we will be able to make some significant progress.

But Customs must continue in its role as the lead agency in narcotics interdiction by maintaining not only our effective interdiction programs within the scope of the mission, but also in coordination with other Federal agencies.

The President has put forth his strategy on the war on drugs. We are working very closely with Dr. Bennett in implementing that strategy, and particularly in the heavily trafficked areas such as the Southwest.

In addition to our lead role in narcotics interdiction—and I want to emphasize on a co-equal footing—there will be a continued march toward meaningful improvement of Customs cargo facilitation and commercial operations, because that mission is ever so important to all of us, particularly to the Customs Service.

So this organization is moving forward in consultation and communication with the trade community, as well as with Congress, and we believe the Customs Service is prepared to meet the challenges of the next decade. We are willing to accept constructive ideas, and we look forward to receiving input from commercial interests who want to contribute their ideas, and certainly from the Congress.

I am really working strenuously to develop a partnership with the trade community, which I believe will yield great benefits to the Customs Service and to America in the future.

As far as I am concerned, the trade community has much to offer in the way of suggestions. At the same time, Customs must have its say, too, because our role is to enforce and administer the laws of the United States as they appear on the books today, and not as we wish they could be. That is a very important responsibility for us.

I would like to say that this last year has been a very good year for Customs on many fronts in the sense that significant accomplishments have been realized.

Let me give you a couple of examples. We have increased the use of cargo selectivity, which was supported by our automated commercial system. We have implemented a major passenger processing and the Interagency Border Inspection System, IBIS.

We have also pursued and implemented several special operations to improve our interdiction methods. One example I would use is the joint Customs/DEA program which has utilized shared intelligence. That has resulted in significant improvements in developing narcotics enforcement profiles.

We have also developed programs which improve our control of narcotics enforcement arrangements with the commercial carriers. This is a key area for us, our carrier initiative program.

I could go on and on. I know that we have many important things to discuss this morning. Permit me to point out that all of the improvements are really geared to enhancing our drug interdiction role, better serving the traveling and important communi-

ties, and also positioning Customs for future large-scale increases in passenger and cargo traffic. With your continued assistance, I believe that we will be able to build on these accomplishments.

I would just like to say that our success would not have been possible had it not been for the great support and strength that you have given us. We are certainly grateful for that, and I want to specifically thank you.

So, in the interest of allowing more time for questions, this will conclude my remarks. I appreciate, Congressman Akaka, your willingness to put our more lengthy remarks in the record, and I appreciate the opportunity to appear before you and the committee this morning.

Thank you.

FY 1990 RESOURCES

Mr. AKAKA. Thank you very much, Commissioner Hallett.

You certainly have given us a good comprehensive view of what you are doing, and I want to compliment you, being a new person and being able to see and view the whole Customs Service as you have. Your remarks certainly point to your understanding of what the work is.

In fiscal year 1990, the Customs Service has asked for $1.3 billion. For 1991, fiscal year 1991, you are asking for $1.2 billion with a decrease of $29.2 million. In light of the kinds of criticism we hear, I would say from the four corners of our country, it is very difficult for us to look at this request for less funding.

Part of this is because of the reduction of personnel by 314 positions.

Ms. HALLETT. Yes.

Mr. AKAKA. Do you not think this large personnel reduction will have a severe impact on commercial operations as well as law enforcement operations, your operations enhancement program and the maintenance of the levels of Customs staff?

It seems to me that there should be a need for holding the line at the least. But to reduce by 314 positions is quite, I would say, hazardous in trying to continue the kind of service you have in the past.

Is the personnel reduction the reason you are requesting $29 million less than last year?

Ms. HALLETT. Mr. Chairman, actually this is as a result, more than anything else, of absorptions. The loss in terms of FTE positions of the 314 comes as a result of really a three-year period, including fiscal years 1989, 1990, and the coming fiscal year 1991.

We will absorb approximately $81 million. That is as a result of the salary increases, the health benefit increases, and the AUO, Administrative Uncontrollable Overtime which goes into effect the first of October this year.

As a result, we are being put in the position where we are trying to find ways in which we can continue our programs, increase some, and in fact there are a number of programs where we are actually increasing FTE positions, however, we are absorbing a significant amount through the reduction of FTE positions.

Now I want to emphasize that this is through attrition. This is with no RIF being anticipated. I think that is very important, because we obviously are a service-oriented agency, and we are going to do everything we can to try and continue to provide the services that is expected of us.

But it will be difficult because of the whole absorption problem that we are confronted with.

Mr. AKAKA. I will pick up on the questions later. I will ask Mr. Skeen for his questions.

PUERTO RICO

Mr. SKEEN. Thank you, Mr. Chairman. Ms. Hallett, delighted that you are here. I want to begin by commending you on the work you did when you were Ambassador to the Bahamas with the drug interdiction program. I understand that that situation has improved decidedly in that particular area.

We have a tremendous problem developing in Puerto Rico, if you would like to comment on what is going on.

Ms. HALLETT. Yes. We certainly see an increase, not only in terms of air drops, but obviously from a cargo standpoint, with cargo coming in from around the world to Puerto Rico, and it requires us to be much more vigilant.

We see an increase in terms of—not only are we sending down some additional TDY people from our air branch to start dealing with the overall picture in Puerto Rico, but in addition to that, and under the supervision of our Assistant Commissioner for Inspection and Control, we are aggressively working to find ways in which we will have a better capability of inspecting cargo as it enters Puerto Rico and comes to the United States mainland.

This is a problem that we need to be working on. We are trying to resolve ways with regard not only the passengers who are coming between that territory and the mainland, but also the cargo; then also addressing the problem with air drops. That is very important.

I think a key ingredient is the addition of the aerostat balloon down there. It is going to give us a much needed capability from an interdiction standpoint.

NEED FOR NEW LEGISLATION

Mr. SKEEN. It seems to be a pattern that develops constantly in this thing, and this is why I think Customs has to adapt itself, and it does very well. And I think that you folks understand the problem better than anyone else.

It is a constantly changing pattern. Every time you get tight somewhere on the interdiction program or the enforcement programs, it is constantly shifting. We are understanding now that there is a lot of stuff coming out of Europe. It is transhipped to Europe. Coming out of Holland, for instance, is one example.

Is there any legislative program that Customs has, or advice that they have to the Congress, insofar as the inspection legislation that you need, or the regulations and so forth, out of the U.S. territories?

[The information follows:]

CARGO INSPECTION FROM U.S. TERRITORIES

Commissioner HALLETT. No legislation is necessary to allow the inspection of cargo arriving from U.S. territories. Numerous Customs' laws currently allow Customs to inspect such cargo arriving from outside the Customs territory. Merchandise arriving from, for example, the Canal Zone, the Virgin Islands, Kingman Reef, Johnston Island, and Guam is considered to have been imported from a foreign place and, thus, subject to Customs inspection per 19 U.S.C. 1401(h); 19 U.S.C. 126; 19 U.S.C. 1467; 19 U.S.C. 1461; and 19 U.S.C. 1499.

Ms. HALLETT. Well, among other things, I would like for us to be able to submit to you in writing some ideas that we are working on.

Before I move to that, I would like to just mention that one of the things that is very important to us is that we have, I think, a very unique working relationship in Puerto Rico, but that certainly there are many other territories beyond Puerto Rico that we are concerned about.

We now have a very close working relationship between the Department of Defense, the Coast Guard, as well as, the DEA, and then also the local police force in Puerto Rico. I think that is helping in both the air and in our marine efforts.

We have special operations that we are going forward with. I think this would bring us to what you just asked me, and that is the need for new regulations, new programs that we might begin devising. We certainly are going to be looking particularly for ways in which we can deal with this cargo issue that I just mentioned.

That could require legislation. I would like to call on our Assistant Commissioner for Inspection and Control, Mr. Banks, to just respond to that if you could, if there is anything that I am missing.

Mr. BANKS. We are working with our Chief Counsel to work out the arrangements. Under limited capabilities, we can do certain inspections.

Mr. SKEEN. Within the Department?

Mr. BANKS. Yes, sir.

REINSPECTING CARGO

Mr. LANE. We are reinspecting cargo that comes into Puerto Rico and has been cleared by Customs as it comes back into the United States. We have done major reinspections of that, testing it.

I don't think, Congressman, though that it is coming in that way. Once you get it in, it's home free. There is no requirement for reporting if they get it in.

Mr. SKEEN. Once you get it into Puerto Rico?

Mr. LANE. They are home free. So we have tried the reinspections. But I think at that point it doesn't make sense to put it in a container. It just adds more time, effort and expense.

We think to a large extent they are flying it out. And we are preparing regulations to require private aircraft to report to the United States just as if they were foreign. We may have some trouble with those regulations.

We have a couple of other programs, one called Carrier Pigeon, where flights that are coming out of Colombia stop in Puerto Rico, and they are just in transit. We hit some of those flights. We have done very well on them. And we have started controlled deliveries. A lot of them are going over to Spain.

Mr. SKEEN. We don't lack for ingenuity on that side, do we?

Mr. LANE. No.

Ms. HALLETT. They are loaded with ideas.

Mr. LANE. Our assessment is, there is a lot of talk about transhipment through Europe. The Dutch had a major two-ton cocaine seizure within the last week. This is the largest we have seen over there.

Prices are substantially higher on that market so unless it is just diversion, we don't think it is coming back.

Mr. SKEEN. You don't think it is coming back?

Mr. LANE. No.

Ms. HALLETT. There is limited evidence of diversion from Europe so I think——

Mr. SKEEN. Limited?

Ms. HALLETT. Limited, yes.

Mr. SKEEN. Well it was played up in the news media considerably. Of course, you know you have to stretch for stories sometimes.

CARRIER AGREEMENTS

Ms. HALLETT. I would like to mention just one other very important effort that we have been involved in for some time now, and that is, of course, our carrier agreements and our super-carrier agreements with the cargo lines from Sea/land to Evergreen to a number of other carriers.

These agreements I think have had a very significant impact in terms of not only a much greater security effort that they have put together——

Mr. SKEEN. On their own.

Ms. HALLETT [continuing]. At the initial point of departure for their cargo containers.

Mr. SKEEN. So the shippers themselves are shouldering some of the responsibilities?

Ms. HALLETT. Yes.

Mr. LANE. We give them a lot of training.

Mr. SKEEN. That's heartening to hear.

PUERTO RICO

Mr. LANE. And Congressman, you mentioned the work that the Commissioner did in the Bahamas. A few years ago, that is where all the activity was.

Now, because of that, the OPBAT and things that she did over there, we have pushed them substantially back to Puerto Rico, creating a new problem.

We are also putting Nomads out there, which is a special marine aircraft and we are moving some boats out there. The Coast Guard is doing things, and we are coming up with a joint command center—all the agencies, and working with the Puerto Ricans, the Forces for United Rapid Action.

So there is a major initiative underway in Puerto Rico.

BUDGET REQUEST LEVEL

Mr. SKEEN. The reason I ask the question is because you've got an overall decrease in your budget this time, about 2 percent. My figures don't jibe for some reason. I show you at about $24 million down, and I think the committee is showing about $29 million, but that could be just mathematical.

Ms. HALLETT. Well, it is an actual increase money-wise of $54 million. We are really looking at it as a wash.

Mr. SKEEN. So you are about level?

Ms. HALLETT. Yes.

CUSTOMS PERSONNEL

Mr. SKEEN. And it has become so personnel-intensive and so critical that you keep your personnel levels relatively high with the flexibility that you have. You are required to handle all these constantly moving situations.

We can give you all the technology in the world, which is a huge capital investment, but if you don't have personnel to back it up, I am concerned.

So when we start talking about—ever since I have been on this committee we have talked about increasing Customs personnel, which we have done. Now we are talking about decreasing, or potentially losing the potential of some of the positions that were created.

I am a little concerned about that. Is that worrisome to you insofar as this budget is concerned?

Ms. HALLETT. Well, Congressman, some of this goes back to the issue of the floor. When we are unable to reach our floor, then of course that places us in a predicament, whereby we are unable to keep up with some of the hiring that is actually mandated by the Congress.

Mr. SKEEN. We were force-feeding it a little.

Ms. HALLETT. I wouldn't have used those words, but——

[Laughter.]

AEROSTAT PROGRAM

Mr. SKEEN. I can use it and get away with it.

Give me a status on the Aerostat Program, and what phase are we in, or how close to completion and how effective is it?

Ms. HALLETT. Okay. I think that we are really seeing some very good progress with the whole Aerostat Program. Three currently are operational on the southwest border.

Three others——

Mr. SKEEN. Did we get the one that was damaged at Huachuca?

Ms. HALLETT. Fort Huachuca is flying. In fact, I just flew past it the other day, and it was at 14,000 feet and working well.

The three GE balloons that are under test including the one which had to be brought down because of a problem in the tether which was struck by lightning, is still being tested by GE.

All three of those balloons, none of which have been transferred to the Customs Service yet, are currently going through that process of being prepared for a final turnover to us.

We are anticipating that, certainly later this year. In the meantime, we have two other balloons in Florida that are flying. We have a balloon which is flying and has been for several years now on Grand Bahama Island, Grand Bahamas. And a second one for the Bahamas will be dedicated and turned over on Thursday of this week.

So I think progress is certainly being made. They are indeed a deterrent. We have certainly not only figures that show arrest and seizures, but I think equally important would be the deterrence which is evident in terms of the lack of air movement into those areas where they are situated.

And certainly in Mexico we have evidence directly from our aerostats of planes that are flying short, landing, and then of course those loads are coming over in a variety of methods.

I saw for myself the other day, in flying over that area, mules, four-legged mules carrying——

Mr. SKEEN. I was just going to mention to you. You put us into the mule business in New Mexico. [Laughter.]

They bring the stuff over with mules and leave the mules and dead-head back rustling cattle. Not a bad operation. They don't waste any time, very efficient.

So we've got a new population of mules. They've got lots of them in Mexico.

How is that Aerostat Program meshing with the C3I program?

C3I PROGRAM

Ms. HALLETT. Well, we feel that there has been a very important break-through at C3I——

Mr. SKEEN. Is that the designation, C3I?

Ms. HALLETT. Yes, three-cube-I.

Mr. SKEEN. Three-cube-I.

Ms. HALLETT. C3I is what we call it.

Mr. SKEEN. C-cube-I, okay.

Ms. HALLETT. We have the west facility in California, the east facility in Florida. In just the last couple of weeks, we have had a break- through with our software in the California C3I, which indicates to us that it may resolve any of the problems, the technical problems, that we have had in detection.

We are making some final tests now. If that is the case, we will update the software at C3I in Florida, and I think we will be full strength again by this summer.

Mr. SKEEN. Sounds very good.

That's the first time we have integrated the entire net? Isn't that what the C3I program has done?

Ms. HALLETT. Yes. And the information is being fed into C3I from the aerostats.

GEORGETOWN AEROSTAT

Mr. SKEEN. One last aerostat questions. When will the Georgetown aerostat be able to fly during the day full-time?

Ms. HALLETT. I am glad to say that the Mosstown Airport has just been dedicated and officially opened.

Mr. SKEEN. That's these smart staff folks. [Laughter.]

Ms. HALLETT. Yes, I'm impressed.

This is a big breakthrough for us.

Mr. SKEEN. Yes.

Ms. HALLETT. Because when the dedication occurs this Thursday, they will be able to fly the aerostat at full altitude, because the Mosstown Airport is now officially open.

P-3 PROGRAM

Mr. SKEEN. I see.

We included some language in the bill last year for the purchase of the third P-3.

Ms. HALLETT. Yes.

Mr. SKEEN. Where are we in that program? What is the status of the third plane, and also would you comment on the GAO report that we had on it?

Ms. HALLETT. The two P-3's are flying. They are flying approximately 120 hours a month, which is probably double what the P-3's are flown by other agencies. In other words, they are very effective.

We have had some technical problems that I think are being worked out, and again I would say technical problems with the radar are 80 percent corrected. We expect all of those problems to be corrected by this summer, at which point we will be ready to go with the order for a third P-3B, which will again be outfitted and would come on line, I believe, by next year.

Actually, I have some information here that shows that for fiscal year 1990 to date our P-3's flew 191 missions, for a total of 1,127 hours of flight time. This is really quite remarkable, because this is 1,007 hours that were flown on surveillance missions, and this has resulted in 27 arrests and seizures of 16,867 pounds of cocaine, two aircraft, four vehicles and vessels.

So we are seeing a return on the investment.

Mr. SKEEN. I think a major improvement, too, on P-3's, is making the program worthwhile, irrespective of what GAO may report on this thing. And I would like to comment on that.

For the first time, we've got fair coverage, fair radar coverage of the border situation. With the aerostats and the P-3's flying, I think we have finally arrived at some kind of an optimum level of surveillance——

Ms. HALLETT. Yes.

Mr. SKEEN [continuing]. Along the border, which we never have had up to this time. So I think it probably has been a worthwhile program.

Do you want to comment on GAO's report?

Ms. HALLETT. Well, only to say that we really feel——

Mr. SKEEN. To give you a fair shot here.

Ms. HALLETT. It is a good report. It covers well the P-3. And certainly, in terms of the effectiveness of the aircraft, I think that we are going to have a very important addition to our fleet interdiction assets.

So I think it is really speaking very positive.

Mr. SKEEN. I thank you for your comments. Mr. Chairman, I've got a few other questions, but I have used more than my time, and you have been most gracious, and I appreciate it.

Mr. ROYBAL. Mr. Lowery.

Mr. LOWERY. Thank you, Mr. Chairman. Commissioner Hallett, welcome.

Ms. HALLETT. Thank you, sir.

Mr. LOWERY. It is a pleasure to have such a fine public servant and a fellow Californian——

Ms. HALLETT. Thank you.

Mr. LOWERY [continuing]. Heading the Customs Service. I know you will do an excellent job, and I know this committee looks forward to working with you.

Mr. SKEEN. She is also a Texan.

Mr. LOWERY. Part-time.

Mr. SKEEN. Part-time. [Laughter.]

We are all claiming you.

SOUTHWEST BORDER

Mr. LOWERY. Carol, I don't envy you. The job of reconciling the enforcement duties of Customs and assuring the smooth flow of trade and travels across the border is an extremely difficult task. This committee, as your staff will tell you, has been helpful in trying to assist Customs with its mission.

Where to begin. Let me start with the delays at the border. As you mentioned in your testimony, the commercial traffic has been exploding across the border. At the same time, we have had an increase in flow of illegal drugs, a rather dramatic increase.

It is especially true at the southwest border. Just the sheer volume is causing incredible delays of anywhere from 45 minutes to four hours.

In the 1991 request, you've requested 175 positions yet with the absorptions you have to take for increased pay as well as the uncontrollable overtime. You are actually at a net loss of FTE's.

What would it really take to seriously address the problem? I mean isn't something like 500 new positions, new net positions, really more realistic?

Ms. HALLETT. Well, Congressman Lowery, I can't really tell you how many more people we will need over the near or the long-term.

I would say that one of the important changes that we are making in FY 1991 is the addition of 175 inspectors on the southwest border. There will be no reductions whatsoever, even though there is a net loss of FTE positions.

That is something that is going to come frankly from other ports, airports, seaports, but not from the southwest border.

So there will be the infusion of the additional 175. And we believe that is certainly going to be helpful from the standpoint of delays, although frankly the delays are getting shorter and shorter for a variety of reasons, not only because of our line release program, but particularly because of the cooperative effort that we have ongoing with the maquiladora interests on both sides of the border.

This is very important, from the standpoint that those loads are sealed up at the maquiladora plant in Mexico, and then of course

we don't have to process them again as they come across the border.

We have some significant facility enhancements that are coming about from California across the southwest border which will help not only passenger processing, as well as, of course, cargo processing.

So we see, really, that combined with expanded hours; certainly the addition of the canine units, which has been extremely helpful, we are improving. And I would have to point to maybe the one most important addition that we have had in the past year, and that is, of course, the National Guard.

That isn't to say that it makes up for manpower in other places, but all of what I have just mentioned has made an enormous difference in our ability to cope with some of these problems.

In fact, we have seen a direct result in terms of passenger processing, where we now see that we are averaging 25 to 30 minutes maximum on an average for passengers coming across the border, particularly in California, with a maximum of about 45 to 50 minutes.

Now, that isn't to say that there haven't been days, holidays and other times, when there has been an extension beyond that. But this is now an important average that is being developed which we are seeing on a day-in and day-out basis.

So I think that with the addition of the 175 on the border, that is going to help us at least for the immediate term.

Mr. LOWERY. Do you have a break-out as to where those positions have gone?

Ms. HALLETT. Yes. In fact, 50 will go to San Ysidro and 50 will go to El Paso. Twenty-five to Laredo, Nogales and Brownsville.

And of course that will allow us the flexibility of moving some other people around, too.

DELAYS AT U.S./MEXICO PORTS OF ENTRY

Mr. LOWERY. In the fiscal year 1989 conference report, this committee directed Customs to submit a report by March first of last year on what can be done to reduce the delays at U.S./Mexico ports of entry.

To this date, and we are almost a year late, the official version has never been released. Why is that? Is it because that the needs for facilities and personnel are so great that OMB doesn't want to confront the task? And will we ever get an official version of the report the committee asked for?

Ms. HALLETT. Congressman Lowery, we have submitted the report to Treasury and OMB, and we do look forward to having that come out, so that we will be able to meet our obligation and send it to the committee.

Mr. LOWERY. When?

Ms. HALLETT. I am sorry, I cannot tell you. I don't know.

Mr. Nummy might know, but I think it is really OMB that has the report right now.

Mr. NUMMY. I am just trying to find out exactly where it is as of this moment. I would just give you a brief background.

The report was drafted. We were very concerned not with the size of the increase, but that the numbers were absolutely accurate. And as you know, there are a lot of quantitative methods that can be used.

The initial draft didn't contain those methods. And so we have been working with Customs to try to come up with a report that not only is accurate, but as accurate as it can be.

So I understand it is now back at Treasury.

Ms. HALLETT. Oh, is it?

Mr. NUMMY. And assuming that we are comfortable with the methodology, I would say it shouldn't be much longer.

Mr. LOWERY. Well, it strikes me, Customs is one of the very few agencies in this Government that actually has a net term to the taxpayer, and I would think that monies spent to enforce are a wise investment of our public dollars, because we are going to get back an immense return.

Ms. HALLETT. In excess of $18 billion last year.

Mr. LOWERY. In excess of your costs?

Ms. HALLETT. Yes, that's what we brought in.

Mr. LOWERY. That's net?

Ms. HALLETT. Yes.

Mr. DENNING. No.

Ms. HALLETT. Net was $17 billion.

Mr. SKEEN. Still not bad.

Mr. LOWERY. Yes, not bad. Not bad at all.

Ms. HALLETT. Well, the user fee that is $850 million in user fees.

INCREASE IN TRAFFIC

Mr. LOWERY. You know, I talk to business as well as travellers, as well as others across the border. Rarely do they criticize the performance of your personnel. The reports are that Customs is really doing a good job. But they are just not doing enough of it. They handle the flow of traffic, and it is the backlogs.

You mentioned you think it is coming down. But is there truly a plan in place, a long-term plan to deal with the growth we are projecting?

Ms. HALLETT. Well, we are certainly projecting growth at an enormous increase during the next ten years. We are looking at every way in which we can make these changes. We are working with INS.

In fact, we had a meeting with the Commissioner of INS this morning, talking about ways in which we can speed up the process. I think that not only through automation, through our whole Interagency Border Inspection System—IBIS—that is the combination of State, INS and the Customs Service, we are going to continue to see a remarkable improvement in what we are able to do from a capability standpoint because of this innovativeness.

There is a great need for research and development in these areas, but this is one of the new breakthroughs. It is indeed helping.

Mr. LOWERY. Is that being adequately funded?

Ms. HALLETT. Yes. Actually I believe we received $8 million for IBIS this past year. We did cut it—in our need to try and absorb—

we did cut it by $1 million, but that will certainly get us through this next year.

CANINE TEAMS

Mr. LOWERY. Mrs. Hallett, you mentioned the canine teams. I have seen unofficial estimates that 145 additional canine teams would be needed and effectively utilized in the southwest border.

How many are you proposing in the 1991 budget, and how many would be added in the current fiscal year 1990?

Ms. HALLETT. In the 1991 budget, the number is 23 units that will be trained. For the current fiscal year, I have I think all of those figures here.

The total teams across the country would be—169 are currently in place along the Southwest Border and for the fiscal year 1991, the 23 would bring it up of course to 192.

Mr. LOWERY. Are my numbers accurate? You could use an additional 145?

[The information follows]

CANINE ENFORCEMENT TEAMS

Commissioner Hallett: In helping to combat the overwhelming influx of narcotics into the nation, Customs has an obligation to use its most effective programs against the threat. Our findings indicate that the Customs Canine Program is cost-effective in the fight against illegal narcotics. The Canine Program also has the advantage of being a program in which resources can be quickly translated into operational tools with immediate impact at numerous ports of entry. For these reasons, a rapid expansion of the program is planned. By the end of FY 1990, we will have 219 operational teams.

The majority of these teams are being deployed to southwest boarder locations to address the very real threat of the use of privately owned vehicles and other land conveyances as a means of smuggling narcotics across the boarder. Our long-range goal is to utilize canine resources to screen all vehicles entering through our soutwest boarder ports.

The mere presence of trained canines seems to heighten the preceived risk of smuggling narcotics and the anxiety level of smugglers. This results in significant additional costs to smugglers as they attempt to find more foolproof methods of concealing narcotics. With this mind, we intend to keep abreast of changes in smuggling routes and alternative methods which narcotics smugglers might utilize. We intend to increase our coverage in container examinations, express hubs and passive response passenger processing teams as additional positions become available.

Ms. HALLETT. I don't know just how many additional could be deployed.

Mr. LOWERY. Your side-kick is shaking his head yes.

Ms. HALLETT. Let me put it this way. We could use as many as we could get, because there will never be a lack of need. Again, considering our fiscal constraints, we have placed a greater emphasis on canine and in some areas, because we do believe we get the most for the dollar with the canine teams.

Mr. LOWERY. Yes. I have seen them in action, and it was very impressive.

Ms. HALLETT. From not only the small dog teams to, of course, the larger dogs able to detect drugs in cargo.

I think the passive dog program is an addition which is really phenomenal to our success rate.

Mr. LOWERY. You say passive dog?

Ms. HALLETT. The passive dogs are the cocker spaniels that we have in airports, and I have personally seen first-hand a success

story where one of the handlers walked around through the airport at Miami, and the cocker went up to an individual and simply sat down next to this individual. He had approximately a pound of marijuana on his body.

So there is no barking, no biting; just sitting there passively.

Mr. SKEEN. Get away, dog, get away. I don't like animals. [Laughter.]

OTAY MESA

Mr. LOWERY. Mr. Chairman, I appreciate your time limits, but just a couple questions affecting ports of entry and San Diego.

There have been numerous requests to increase the hours of operation at Otay Mesa and Tecate. Tecate may not be ready for 24-hour operation, but there are any number of requests to expand it.

Otay Mesa I think is probably past due in terms of 24-hour operation. What is the likelihood that this could be accomplished?

Ms. HALLETT. Well, Congressman, at Otay Mesa we have a problem in terms of having a 24-hour operation. Between 6:00 and 8:00 a.m. it is primarily empty trucks that are being allowed through. We have extended those hours.

From 8:00 to 5:00 we have all truck traffic coming through. After 6:00 p.m., perishables are done as needed. And from 9:00 p.m., tankers are done as needed. So, it is not full-time.

But, really, the key is the ability to work this out with the Mexican Government. We have had discussions with them to do something along that line. But it is my understanding that the Mexican Government has not agreed to a 24-hour operation at Otay Mesa.

Mr. LOWERY. I am thinking not so much in terms of commercial traffic but what about automobile traffic?

Ms. HALLETT. That I couldn't tell you. I don't know what the status is on that.

[Confers.]

It is at San Ysidro, but not at Otay. I will provide that for you, if we may.

[The information follows]

OTAY MESA

The Otay Mesa Port of Entry, opened five years ago, is seven miles east of the San Ysidro Port of Entry. Its hours of operation are currently from 6:00 a.m. to 10:00 p.m., seven days a week, for vehicle and pedestrian processing. The business community, however, has expressed interest in establishing 24 hour service.

Traffic is generally accommodated during the port's current hours. On weekdays it is rare that vehicles are turned away at closing. With the exception of holdidays and weekends, extending hours of service would not be an effective resource expenditure. Customs is sensitive to community needs, however, and sees the need to extend the hours from 10:00 p.m. to midnight on Mexican or United States holidays and on weekends.

At the most recent quarterly Federal Inspection Service (FIS) meeting in San Diego, Customs introduced the idea of extending service until midnight on weekends and on Mexican and United States holidays. Customs would be willing to expand the hours of service to accommodate significant traffic and is currently examining how this could be accomplished with existing staffing.

Mr. LOWERY. I am aware of the problems and complications of commercial inspection, but vehicle, passenger vehicle inspection, I wouldn't think there would be a problem. It causes a lot of tension

as individuals approach the midnight hour, and it causes backlogs down to San Ysidro.

Ms. HALLETT. Let us get back to you on that.

Mr. LOWERY. I've got additional questions, but I will submit them for the record.

Thank you, Mr. Chairman.

Mr. ROYBAL. Thank you.

Ms. HALLETT. Thank you.

Mr. ROYBAL. Mr. Akaka.

Mr. AKAKA. Thank you very much, Mr. Chairman.

I reiterate and say it is good to have you here this morning.

Ms. HALLETT. Thank you.

INSPECTORS AT HONOLULU

Mr. AKAKA. In the State that I represent, trade is very, very important. We consider the life blood of the Hawaiian economy to be tourism. As in Detroit they have their auto-makers, in California they have Silicon Valley, in Hawaii, We have the alluring climate that brings visitors from all over the world.

And Hawaii is not the only place where tourism is important. It is important in our country. It is big business throughout out country. In 1989, foreign visitors spent $34 billion while travelling in the United States, and that spending means a lot to the U.S. trade balance.

The good news is that tourism in Hawaii is blooming. International arrivals have increased by nearly 50 per cent over the past three years. This has contributed $4.2 billion to Hawaii's economy.

That is good news. But the bad news is that the Customs Service can't process the tremendous growth in foreign visitors.

What is worse is that at the same time that we have a 50 per cent increase in arrivals, there are 15 per cent fewer inspectors at Honolulu International Airport than we had three years ago.

Commissioner Hallett, I know you are about to tell me—and you did tell me that—and gave reasons for cutting 314 positions from your force, and even by doing that you can continue efficiently and produce as much in your work force.

Anyone who tells me that they can process 50 percent more visitors with 15 per cent fewer inspectors is living in a dream land. That is why this committee agreed to increase staffing in Honolulu by 24 inspectors.

We have reached the limit of our ability to handle the work load using part-time and temporary staff. So we are forced to resort to an increase in permanent positions that have been authorized.

The January 9 report you provided my office concludes—and I quote—that, "The Customs Service is required to provide an increase of 24 inspectors at Honolulu International Airport," unquote.

These inspectors were supposed to have been hired by February 15th. But as far as I know, there has been no action taken.

So my question to you, Commissioner, is does the Customs Service intend to carry out this requirement and when will we see this action taken?

Ms. HALLETT. Congressman Akaka, it does pain me to tell you that we have not been able to place those individuals there, and really it is because of a matter of robbing Peter to pay Paul.

It would mean taking those 24 positions from other ports where needs and demands in some cases are greater and in other cases not as great. And so it caused us to do a considerable amount of not only soul-searching, but also research.

We do believe that much of the delay is the responsibility of INS and not the Customs Service. When you and I talked recently, I indicated that Mr. Lane was in Hawaii at the time, and I was going to ask him to go back out and do a surprise visit to see what was going on, and he did.

I think that he would concur with me that, certainly, during the time he was there—in the morning, which was the peak time for flights coming in—there were certainly no significant delays through the Customs processing.

I think that we are going to see further improvements in that area because of our new 1990s approach at the airports, combined with, of course, the IBIS system, which will help.

Now this isn't to say that, with the enormous growth that we can anticipate from the Pacific Rim, that the problem can be met in the years to come. But I think that with our whole absorption problem that we are faced with right now, I am at a loss to tell you how we are going to put those 24 people there without taking them from other airports that have equally difficult problems.

Mr. AKAKA. Yes, we know there are difficult problems in other areas—I am sure in L.A. and other areas—which only points up the reason why we need more positions rather than less.

With projections of tourism in the United States and, as I pointed out, the four corners of our country, in my mind I can't see—that is reason I used that phrase dream land, to think that with less we can do more.

So we would like to see what is being authorized already, carried out. The reason for my concern is that the longer we wait, the worse the situation will become, knowing that the increases are coming.

In the next two years, Hawaii expects to receive an additional 1.5 million foreign arrivals per year. That is projected. Unless we get additional Customs staff, we will face chaos out there in Honolulu.

Also, as you know, we are now in a visa-waiver arrangement with Japan, which will help to bring this increase about. So, Commissioner, can I tell my friends in Honolulu that help is on its way?

Ms. HALLETT. Congressman Akaka, let me make a deal with you. Let me suggest that we both monitor this very closely. That if there is any indication that significant delays are starting in again because of the Customs Service, that I will ask our people to notify us immediately.

I would like to ask you to have even the Hawaii State Department of Transportation keep an eye on this so they could also be intermediary where they could also help us be sure we are ahead of the game.

I just wanted to share one set of figures with you, because I think it would help to show how large the overall work load is. The

average number of passengers inspected per inspector in Honolulu per year is 43,800.

Interestingly enough, the number one location is San Francisco, where each inspector processes 84,000-plus passengers, 84,800 passengers per year.

And so it shows that there is a tremendous demand everywhere. I really want to work with you to make sure that we do not fall behind and we continue to process in as speedy a way as possible.

INSPECTORS AT HONOLULU

Mr. AKAKA. As you know, the committee did discuss this last year and did see the need for 24 additional positions, so it is authorized in the law. I am hoping that you will be able to carry this out.

I also note that you stated that you found 150 positions for the southwest border this year. I hope you can do the same when it comes to Honolulu. As far as San Francisco—and what is different with Honolulu is that in Honolulu we have a peaking problem between the hours of 6:00 a.m. and 11:00. We wish that we didn't run into the curfew problems that the Pacific Rim people have in the Orient, which helps to cause that problem.

But I am glad that you are willing to look at it, and we hope that it comes out in our mutual benefit and benefit to our country.

Another question is on Customs user fees, Commissioner.

Ms. HALLETT. Yes.

CUSTOMS USER FEES

Mr. AKAKA. What recommendations do you have about restructuring the user fee account to provide you with flexibility necessary to address your staffing problems?

Understand that when the law was passed it was to be used by you for your needs. And so I am asking particularly about your staffing problems.

[The information follows]

USER FEES

The revenue generated from the Merchandise Processing Fee (MPF) serves to offset the costs for commercial processing at the funding level established by Congress. Any new commercial positions would be incorporated into Customs commercial operations budget base, presuming Customs user fee program is extended beyond the September 30, 1990, sunset.

The other source of user fee funding for Customs is the COBRA account (passenger and conveyance-related fees) which currenlty covers only overtime and preclearance excess costs. There is a legislative proposal contained in the Miscellaneous Provisions title of the trade measure currently being considered by the Senate. This measure would insure that the payers of user fees receive the benefits for which they have paid.

The administration would like to expand the use of COBRA fees to cover all passenger processing costs, subject, of course, to appropriations restraints.

Ms. HALLETT. Yes. Well, I think that would probably be in reference to the COBRA funds that were established in 1985. That, of course, does allow us to pay overtime for inspectors at airports and seaports, as well as, the southwest border.

But the interesting part about the COBRA fund is that when INS, got access to COBRA funds they had a provision which allowed them to utilize the funds for the hiring of inspectors as well.

Now, of course, they receive the benefit I think of the full amount of the COBRA fund. We receive about $110 million a year. The remainder goes to the general fund.

But that certainly would give us some flexibility, if we had the ability to hire inspectors as well. I believe that the Finance Committee has reported out a bill that would actually give us the same authority as INS.

But it is certainly, from the standpoint of the need being met, this would be very helpful.

Mr. AKAKA. Would this be applied towards servicing passenger processing?

Ms. HALLETT. Yes. It would be specific from the standpoint that it would allow for us to hire more inspectors, in addition to, of course, pay the overtime which we are able to do now.

EXTENSION OF HONOLULU HARBOR

Mr. AKAKA. My last question has to do with the deep water harbor in Hawaii on Oahu. The Federal Government spent about $70 million to dredge and build that harbor. The reason is that Honolulu Harbor couldn't really handle the volume of cargo necessary for the State of Hawaii.

On April 25, 1989, the State of Hawaii wrote your predecessor requesting that the port of entry for Honolulu be extended to include the nearby harbor Babas Point. This change is essential if we are to make productive use of the Federal and State investment in the second harbor.

Would you please look into this request and get back to me with your answer?

Ms. HALLETT. Certainly.

[Confers.]

I am told that we have just done it. It has been published on February 25th, and we will be sure to supply that copy to you today.

Mr. AKAKA. Thank you very much. I appreciate your responses.

Ms. HALLETT. Thank you.

Mr. AKAKA. Thank you very much, Mr. Chairman.

Ms. HALLETT. Thank you, Congressman.

Mr. ROYBAL. Thank you, Mr. Akaka.

Mrs. Hallett, I would like to just take this opportunity to welcome you to the committee and, again, tell you that I was very pleased when you were appointed.

Ms. HALLETT. Thank you.

CUSTOMS USER FEES

Mr. ROYBAL. I think that we can work together for the benefit of the Service and for the Nation.

I do have some questions that I would like to ask for the record. One is with regard to the user fee account. I see that you are requesting that almost $500 million of that account be used to replace the appropriation rather than using it to increase the funding made available.

Now, why is the Customs user fee account being used in a manner that was apparently not intended when the public law was enacted?

Ms. HALLETT. On the ad valorem fee, Mr. Chairman, actually the change that is being suggested, I believe, came from USTR to change the actual mechanism for the ad valorem fee being collected.

It is of course a fee that is collected. None of that money goes directly to the Customs Service for the purposes of expenditure for programs or personnel. That money does go into the general fund.

We are literally the collector of the funds through that user fee.

Mr. ROYBAL. Was that the original intention of the legislation?

Ms. HALLETT. I am sorry, I don't know whether it was the original intention or not.

Mr. Lane?

Mr. LANE. Well——

Mr. ROYBAL. It resulted in that way, but I don't think it was.

Mr. LANE. The original intent in Customs in proposing a fee was that we got access through it, but it didn't come it was not enacted that way, so that it goes into the general fund.

There is a new ad valorem, modified ad valorem proposal coming up, and that, too, would go into the general fund.

Mr. ROYBAL. If it goes into the general fund, then no monies will be earmarked——

Ms. HALLETT. That's correct.

Mr. ROYBAL [continuing]. For Customs to be used to improve their services.

Mr. LANE. That's the problem with that particular fee. That's why we are so interested in the COBRA, because we would get to use some of that for things like Mr. Akaka is concerned about.

Mr. ROYBAL. I would like to see that happen.

Now, what is the estimated revenue for 1990, and then also 1991?

Ms. HALLETT. For the user fee?

Mr. ROYBAL. From the user fee.

Ms. HALLETT. Let me go back to the current fiscal year, because that would be approximately $850 million. With the change that is being proposed, I believe it is around $550 million.

Mr. ROYBAL. All right. Now that amount, whatever that amount happens to be, is not earmarked to go to Customs but to go to the Treasury?

Ms. HALLETT. That's correct.

Mr. ROYBAL. All right. And how much? $550 million?

Ms. HALLETT. For fiscal year 1991.

COLLECTIONS

Mr. ROYBAL. 1991.

Now the other question I would like to have for the record is the revenue that is anticipated to be collected by Customs activity in 1990 and 1991. I would like to have you provide, for the record, a table showing annual collections for the past five years.

Ms. HALLETT. We would be happy to provide that.

[The information follows:]

USER FEE COLLECTIONS 1986–90

Form Fiscal Year 1986 through Fiscal Year 1990, the Customs Service will have collected almost $3.8 billion in all user fee categories. Customs merchandise processing fee (MPF) collections ($2.7 billion) and COBRA collections ($539 million) total $3.2 billion. Fees for other agencies such as the U.S. Army Corps of Engineers (Harbor Mainentance Fee $540 million) and the Department of Agriculture (beef, pork, and honey $33.6 million) total $537 million.

CUSTOMS POSITIONS

Mr. ROYBAL. All right. I would like to have that, because I can use it on the floor of the Congress.

Now, one other thing we constantly talk about in a meeting such as this is the matter of personnel. During the last few years, the recommendation has been to decrease Customs personnel, not increase it.

In fact, the recommendations in the past have been to decrease Customs by 1,500 positions. This committee put back in the 1,500 and added 800 more. And we also suggested that certain personnel go to Hawaii and to Oakland and to other parts of the country.

Ms. HALLETT. Yes.

Mr. ROYBAL. We continue to, however, receive complaints from Members, as well as local officials, where they tell us that some of these things have not been done. And also that even if they were not designated to receive any additional personnel, that they do in fact need it.

What is the story behind all of this? Do we need to re-evaluate the personnel that Customs needs? What has to be done, Ms. Hallett, to come up with a number of Customs personnel that meets the need?

Ms. HALLETT. Mr. Chairman, again it is a difficult question to answer. Certainly I would start out by just going back to the whole issue of absorption, which of course has caused us to look at the entire budget and determine where we would make changes, particularly reductions in FTE.

Will this 1991 fiscal year have 16,349 FTE positions but in fact close to 17,000 employees overall? As long as we have an absorption problem, our hands will be greatly tied in terms of making increases in personnel.

I don't want to belabor this. But I would just point to one rather significant change that has taken place at the Customs Service. And that is because of our Automated Commercial System.

The Treasury Department just recently completed a study that showed that that whole system, ACS, has taken the place of 6,500 employees. I think that that certainly has made a very big dent in helping us meet some of these personnel needs that we would not have been able to meet otherwise.

And so I show that, as an example, that while we are living in limited times, that has made a difference to us, and we have made significant advancements in our automated commercial system.

Mr. ROYBAL. I am still not satisfied that what we are doing is adequate enough. The question is, is there an ongoing study of some kind to determine what is actually needed in personnel?

The answer I get in general is, no, there is no such study.

Ms. HALLETT. Well, Mr. Chairman, maybe I would answer that rather than just saying that's not the case, I would point out that we are aggressively working right now on our year 2000 plan. We are looking at the personnel needs that we will have between now and the year 2000.

Obviously our work load is going to double by the year 2000, and we don't underestimate that. That is one of the reasons why we are looking at ways to increase productivity. That's why the whole automation is going to be so very important in the Customs Service.

Certainly I would have to start off by saying that one of the reasons that we have been able to meet our needs so well thus far is because of the generosity of yourself, Mr. Chairman, and your subcommittee. You have helped us get through some very difficult times.

Now we are looking at ways in which, with what you have brought to the Customs Service so far, we will be able to improve upon that through our technological advancements. I think the fact that we are bringing in about $20 billion a year with not only the user fees, but of course all of our duties and our tariffs, shows that we are getting a tremendous return on the investment from the number of people that we have on-board.

I would just hope that we would continue with the abilities that have been developed, so that we will meet these needs.

FY 1991 REQUEST FOR RESOURCES

Mr. ROYBAL. All right. Now, let us assume that the work load would double by the year 2000.

Ms. HALLETT. Yes.

Mr. ROYBAL. Let us also assume that the income would remain even constant at $20 billion annually.

If the work is going to double, if the income is going to remain constant—and I hope it doesn't, but let's say that it does—why is a decrease of $29 million being requested in this budget?

Ms. HALLETT. Well, Mr. Chairman, it is directly related to the whole issue of absorptions, that I mentioned earlier. For the three fiscal year periods beginning with 1989, 1990 and 1991, we are absorbing $81 million. This is as a result of the pay increases, the health benefits, as well as the AUO, administrative uncontrollable overtime for our 1811 agents.

And that is something—with sequestration added in—is something that is having obviously a direct impact on our ability to hire more. When we absorb $81 million over three years, we have to take it somewhere.

Mr. ROYBAL. That of course is commendable that customs is able to absorb. But the next question that comes to mind is, was your original request a decrease of $29 million, or is it something that finally evolved after consultation with the Office of Management and Budget?

Ms. HALLETT. That was part of the pass-back. In the pass-back we ended up with a $29 million decrease.

Mr. NUMMY. Can I just add one thing?

In terms of the staff and reduction, the Commissioner has outlined the source of that. In terms of the $29 million reduction, it is

important to remember that last year, the current year we are in, we are going to spend about $100 million on airplanes in the air program. That purchase won't be necessary next year.

So there is $100 million out of the base that is important to factor in when you are looking at this over two years.

Ms. HALLETT. Thank you, Mr. Nummy. I really failed to point that out. That is an important point.

Mr. ROYBAL. No, you did not, because this is a separate appropriation anyway. We are talking about an appropriation for salaries and expenses in which you are reducing 314 positions and what you have just brought out is under another part of the budget.

Mr. NUMMY. But if you look at the salaries and expenses appropriation, there is an increase in the dollars and a decrease in the staff.

Mr. ROYBAL. I understand that to be a fact. But the truth of the matter is we are talking about two different appropriations. I am looking at a total reduction of $29 million when we are being told we are going to double our activities within this decade and we are reducing personnel by 314 positions in the salaries and expenses appropriation.

We won't be able to employ or put to work as many as could be requested. Now, for a lay person like myself, that doesn't make any sense. And I suppose it doesn't make any sense for the people who are not professionals like you are.

Now, there has to be an answer somewhere down the line. Now, we in this committee don't mind taking the leadership as we have in the past to keeping Customs intact and up to strength. You probably know, Ms. Hallett, that there was a move here not too long ago where they wanted to merge Customs and Immigration.

Ms. HALLETT. Yes.

Mr. ROYBAL. They also started to dismantle the Bureau of Alcohol, Tobacco and Firearms. If it hadn't been for this committee, it probably would have been done.

Now, I think that would have been a backward step in establishing the mechanism that would bring about a proper Customs and Immigration policy to this country.

But for some reason or other, there was a move in that direction. I hope that there is no such move this time. And I hope that there is a move here to actually provide for Customs what you rightfully need. We don't want you to have any more. But we sure don't want you to have any less.

When I look at the budgetary request, I immediately assumed this was not your original request. I don't know why I took that kind of guess, but I did.

But you ended up with a total $29 million reduction. I respect your position with regard to defending this budgetary request. But I think that whoever came up with that figure was in error. I don't care who it was.

Because Customs Service in fact produces about $20 billion a year. You are a revenue-producing agency of the Federal Government. And it seems to me, if you invest in a good thing, your returns will continue. They may even get better.

But if you decide to cut back on that good thing, then you are going to decrease revenues. But the worst part of it is that the morale in the employees is going to continue to deteriorate.

There have been instances where in Customs the morale wasn't very high. I don't find that to be a fact now, because I have not gone out to visit the various ports of entry in Customs all over the country. But I am going to do that. When I did the last time, I found that to be a fact. I don't know what it is now.

But what I am saying to you, Ms. Hallett, is that I think that you have a very friendly committee here. We want you to be the best Director that Customs has ever had. We want to help you. But if we are going to fight, let's fight together. I don't want you to hold my coat while I do all the fighting. [Laughter.]

I want you to fight with me, and I understand you are a fighter. That's why I am making that pitch to you. Now, you probably have other problems. What about equipment? What about cars? Computers and so forth? Is Customs short in this area, or do you have everything you need now?

FY 1991 REQUEST FOR RESOURCES

Ms. HALLETT. Mr. Chairman, we have, for all intents and purposes, frozen the majority of the funds for equipment this year.

We do have a modest increase in the budget for fiscal year 1991. Of course, we already have, from the standpoint of aircraft, I think we are exactly on line from that standpoint.

For other equipment such as cars, computers and those necessary but very important day-to-day pieces of equipment, we do have, as I say, a modest amount in the budget for that.

But on the other hand, we have cut our travel costs. We certainly feel that automation is going to help us make up for some of the money that we need for equipment. And I think that equipment and special operations have taken a hit because of the whole absorption issue.

TRAINING PROGRAM

Mr. ROYBAL. Okay.

One of the things that we find is the attitude of Customs officers at the time I made the original visit. It left a lot to be desired.

What about your training program, training personnel on matters of attitude, how to deal with the public? I realize that it is a long, tedious job, and of course anyone could get impatient.

On the other hand, you are dealing with the public in general, and when someone isn't treated right, they complain. Who do they complain to? Their Congressmen.

Now what about the training program? What kind of program do you have to see to it that the so-called internalized depression that one may be feeling is not manifested in what they do when people come through Customs?

Ms. HALLETT. Well, we of course have the three training facilities. The major facility, in fact, I am going to be speaking at a graduation ceremony tomorrow in Glynco, Georgia. That is really the key training facility from the standpoint that this is where all of

our first-time employees go through their training. This is where updated training takes place.

In fact, tomorrow in the graduation class which I will address, not only will there be import specialists who have come back for special training, but there will be first-time inspectors who are being passed out after a successful completion of their training period.

I believe that from a training standpoint we really have an outstanding training program. The facilities are excellent. We are adding to the training, on-the-job training. We are training individuals to go back into the regions and do the on-the-job training.

In addition to that, we are providing films. We have travelling training teams that are going out in the field. And part of this, of course, is to make up for the cuts in travel money which would be utilized for those who were going for a second or third time at training and, I believe, can be equally if not more effective in having that on-the-job training within the regions.

So, I think it is one area where literally we are making an effort to improve the ability to provide training. Not only does that mean in terms of attitude with the public, but the overall ability to cope with 400 million people coming into the United States, and to cope with all of the various responsibilities that an inspector, an agent, an import specialist, an auditor, no matter what their particular field in the Customs Service, we are providing the training.

Mr. ROYBAL. I believe that Glynco provides excellent training.

Ms. HALLETT. Yes.

Mr. ROYBAL. But I do not know how much time is spent in that training in training the individual as to how to deal with the public and the overall concept of someone teaching what problems can arise when a Customs employee particular depression is taken out on the individuals with whom he deals.

I think that is something that is being developed now throughout the country and something that I think the Federal Government can use.

Ms. HALLETT. We do have specifically courtesy training which is part of the program, and then there is also an effort to go out and observe. If there is any conflict that is reported, if we have complaints from yourself, Mr. Chairman, or from an individual who has felt that they were offended as they transited through one of our border facilities or port facilities, we investigate every one of those complaints on an individual basis.

Mr. ROYBAL. Would you please, then, provide for the record a more comprehensive statement about the Customs training program.

Ms. HALLETT. I will be happy to do that.

Mr. ROYBAL. And we will include that in the record.

Ms. HALLETT. Good.

[The information follows:]

TRAINING IN PUBLIC RELATIONS

All Customs employees in the Commercial inspectional and enforcement areas receive training in how to deal with the public.

For import specialists, we are currently piloting an Entry Unit On-the-Job Training (OJT) Program, which is required training for newly-hired entry employees. A

significant portion of this program is dedicated to teaching courtesy, tact and telephone etiquette when dealing with the public. The performance of the participants is evaluated by the instructor and the employee's supervisor. Those participants that experience problems in dealing with the public receive additional assistance in Basic Communications Skills or Effective English Workshop courses. The OJT program and evaluation occurs during the probationary period for new employees.

Import specialists also deal with the public on a routine basis. During the first 10 months of an import specialist career, he/she must complete a formal on-the-job training program and evaluation. Of the 44 OJT subject matter areas, 8 relate to oral or written communications with the public. Specific topics include the preparation of certain Customs forms used to convey or solicit information, meeting with importers and their representatives, and proper telephone etiquette.

Within the first year, import specialists are required to pass a basic import specialist course. Approximately 6 percent of the total available class time is concerned with the effective use of oral and written communications.

Law enforcement personnel also must have a basic understanding of human behavior and strong communication skills. Customs inspectors and agents receive training which will allow them to identify potential high-risk situations on the basis of behavioral analysis and situational awareness. Our personnel receive instruction in verbal and non-verbal communication, cross-cultural communication, identifying and handling abnormal behavior, and stress.

Professionalism is incorporated into all Customs enforcement training. Maintaining a professional demeanor during each transaction is essential to successful performance. We regularly perform analyses of correspondence to identify locations with an inordinate number of valid complaints. Instructional teams visit these sites to present a refresher in professionalism.

New personnel are required to complete 22 hours of formal training. Advanced courses include 8–10 hours. In each case this is supplemented by on-the-job instruction at the individual work locations.

INTERNAL SECURITY

Mr. ROYBAL. The other thing I would like to have for the record is the matter of internal security program, what you have in that. If you would provide that for the record.

One of the things that were discussed this morning—and this is why I was a little bit late—was this matter of personnel and the dollar amounts devoted to the so-called war on drugs.

How much of your budget and personnel is devoted to the war on drugs?

[The information follows:]

CUSTOMS INTERNAL SECURITY ARRANGEMENTS

Physical security is maintained through sophisticated building access control systems and periodic security and countermeasure reviews. Additionally, we thoroughly screen on-board and projected Customs personnel; provide training to all employees on the proper handling of classified information and sensitive documents; and maintain security controls over our various computer systems.

DRUG ENFORCEMENT

Ms. HALLETT. In overall terms, of course, there are certain requirements and that is for personnel figures. We cannot drop below approximately 10,300 for commercial operations.

That leaves the remainder not only in the overall enforcement area, but in investigations, in a variety of other responsibilities, whereby in order to meet all of our needs, again, we have a balancing act.

And I think I have the figures here that show you the exact amount. But we have 6,400 FTE positions budgeted for the 1991 fiscal year for enforcement positions.

Mr. ROYBAL. That is out of how many total personnel?

Ms. HALLETT. That would be out of a total of 16,300.

Mr. ROYBAL. And the dollar amount, can that be estimated?

Ms. HALLETT. Let me see if we have the dollar amount here.

[Confers.]

Ms. HALLETT. I will have to provide that for you for the record.

[Confers.]

Oh, here we go. Oh yes. Okay. That's $579 million.

Mr. ROYBAL. In other words, this comes out of an existing budget?

Ms. HALLETT. Yes.

Mr. ROYBAL. And it also comes out of an existing personnel activity that in the past was not necessarily devoted to that particular endeavor?

Ms. HALLETT. Yes.

Mr. ROYBAL. It is not new because you have always been involved in it one way or the other. But it is an added direct responsibility.

Ms. HALLETT. Yes.

Mr. ROYBAL. Therefore, the $579 million that is being used for that is actually taken out of your overall budget, am I not correct?

Mr. LANE. Well as the Commissioner pointed out, Mr. Chairman, like the air program which I figure is probably in there, is $140 or $150 million in the year we are talking about specifically for that, actually budgeted for it.

You have been helping us get that, so you know. So a lot of that is just appropriated specifically for drugs, for instance in the air program.

Mr. ROYBAL. So, you have that earmarked then for that specific purpose?

Ms. HALLETT. Yes.

Mr. ROYBAL. How do you use that? I don't quite understand. You have $150 million?

Ms. HALLETT. Yes.

Mr. ROYBAL. And it is costing you in excess of $500 million?

Ms. HALLETT. Well, in 1990, $90 million was devoted to a one-time-only acquisition of Citation aircraft. Ten aircraft will come on line beginning the middle of February next year.

I, addition to that—that also provided for the the F-16 radar packages that are being installed in the aircraft.

So when we had this kind of a one-time-only acquisition. I think that does help to explain the use of that money.

Mr. ROYBAL. But when all of that is being done and that money is used for that specific purpose, you still have operating expenses?

Ms. HALLETT. That's correct. And we have budgeted for those additional operating expenses as well as the manpower.

Mr. ROYBAL. Now, you have budgeted for those expenses but not in this budget?

Ms. HALLETT. For only a partial amount, Mr. Chairman.

Mr. ROYBAL. But eventually you are going to have to, I suppose, increase your budgetary request in order to provide a budget that will do that adequately?

Ms. HALLETT. Yes. That is absolutely correct.

Mr. ROYBAL. Again, I do not understand these requests for decreases. Of course, there are a lot of things I do not understand.

But at one time, Mrs. Hallett, I was an accountant before I went astray and became a politician. [Laughter.]

So I look at this thing from the bottom line, what you can do with the amount appropriated. It is important from the standpoint that I believe Customs to be one of the most important agencies, and I do not like to see it hurt in any way.

And it seems to me that this is not the best way to enhance the best capabilities of a revenue-producing and important law enforcement agency of the Federal Government.

Ms. HALLETT. Mr. Chairman, I hate to sound like a broken record, but I think it is fair to say, were it not for absorption, you obviously would see, I believe, an increase in a number of different areas that we are not able to provide at this time because of absorption.

Mr. ROYBAL. Alright.

Now, Mr. Wolf, we have been discussing salaries and expenses, and we are now going into operation and maintenance, and the air interdiction program.

You now have the floor to ask whatever questions you want in either one of those areas.

FAST BOATS

Mr. WOLF. Thank you

I apologize for being late. I was at another hearing on the Coast Guard, so that is why I was late. I have a couple questions. Some I can just submit for the record. Others I would like to ask.

One is on the question of fast boats. We spent a little time talking to the Coast Guard, and I think they have five fast boats. Each fast boat takes about ten people to operate and maintain and things like that. They have been having some problems with fast boats. They have been breaking apart.

Are you having the same problems, too? Have you spoken lately with Admiral Yost to see if perhaps just Customs ought to be operating the fast boats or, heaven forbid, just Coast Guard should be operating the fast boats? But that just one agency should be operating them?

Ms. HALLETT. Well, first of all, Congressman Wolf, we really have, I think, a very significant marine program. In fact, it has made certainly the difference in many areas, particularly in the southeast region. And that of course is where we have had almost all, if not all, of our fast boats.

There has been a fast boat facility at Gun Key in the Bahamas. One did exist on Grand Bahama Island, and it was a joint facility with the Coast Guard, as is the Gun Key facility.

I am just looking to see if I can find the actual number of fast boats that we have in our fleet.

[Pause.]

We have about 200 in total, of which 15 are considered fast boats.

Mr. WOLF. You have 200 and they have five.

Ms. HALLETT. Yes. We have not experienced the same problems. Although ours is an aging fleet; it is one that does need some tender loving care, I guess to put it mildly.

But we really have a very, very good success rate in terms of running them. And I think it has been far better than that of the Coast Guard.

We work closely with the Coast Guard, particularly in the southeast region. I think we have an excellent working relationship down there that has been fostered over the last couple of years.

Mr. WOLF. Well, he said that, and I have great respect for Admiral Yost. I think he has done an excellent job.

On the question of fast boats, it does seem that it is inappropriate for both agencies to be operating them. If you have 15 and they have five, probably it would be easier for you to take their five than for them to take your 15.

Ms. HALLETT. In fact, may I interrupt you by saying they added those five while I was the Ambassador in the Bahamas. And I think it was to see whether or not there was a need to have both agencies involved with the fast boat program.

I really am convinced that there has been—and without causing this to sound like a turf issue, because it is not—I think there has been a level of superiority only because of the number of years that we have had the successful program ongoing.

Mr. WOLF. Well, he said that and he spoke very highly of you, too, so I am sure there is no a turf battle.

If you two may look at that, he seemed to be open to the idea. I asked him how many seizures he could attribute to their program.

How many seizures can you attribute to the fast boat program?

Ms. HALLETT. I do not know that I can give you that figure offhand. I will provide it for the record because it is very significant.

Mr. WOLF. Okay.

[The information follows:]

SEIZURE STATISTICS

Although it is not possible to break out exactly which seizures were made by which type of Customs vessel, the following statistics will indicate the success of the Customs Marine Program as a whole.

In FY 1988, the Marine Program, including the Blue Lightning Operations Centers, was responsible for 1,211 arrests and the seizure of 398 vehicles, 477 vessels, 226 weapons, $4,142,931 in currency, 898, 785 pounds of marijuana, 66,216 pounds of cocaine, 92 pounds of heroin and 88,895 pounds of hashish.

The figures FY 1989 were 1,103 arrests, 264 vehicles, 357 vessels, 226 weapons, $15,268,704 in currency, 223,621 pounds of marijuana, 60,044 pounds of cocaine, 97 pounds of heroin and 50,471 pounds of hashish.

Ms. HALLETT. In fact, I think that is what has literally changed the face of the trafficking picture in the southeast, is because of our marine program which incidentally is under review right now.

We believe that we have to be able to change with the practices of the traffickers. While probably the hottest spot right now is the southwest border, if we walk away from any of the southeast region activities that have been so important in the past, they, of course, in 24-hours will be back in there full force.

EXPORT

Mr. WOLF. If you could furnish that data I would appreciate it.

The other issue concerns COCOM changes. Has the Administration been working carefully with Customs with regard to export licenses, and are there some things that you could be doing that

would make it easier for American businesses to export, and yet are you being very careful that we are not exporting the wrong things?

What is the latest situation?

Ms. HALLETT. We are very concerned and very interested in the whole issue of exports. In fact, we are looking at it closely. We believe, as I believe you know—we work through the Census Bureau with export as well as with the Commerce Department.

But for tracking information on exports, we are dependent upon the Census Bureau for much of the information that is utilized. Then we work directly with the Commerce Department, particularly with respect to the potential sale of technology. That is something we follow closely. We have a very important division within the Customs Service for this that, I believe, is right up-to-date on that and working with the business community.

We had a meeting with the Commerce Department yesterday—I did personally—on the issue of export. And we are trying to work up a way in which we will be able to work more closely on, particularly, the issue of the trading of technology.

DULLES AIRPORT

Mr. WOLF. Two last questions then.

One, if you could just maybe either submit it for the record, or better yet, come on by, have somebody come on by and see me. I have gotten a lot of requests again about Dulles airport with regard to the potential for flights coming in. Overseas flights may increase quite dramatically this fall.

And Customs has been very good in meeting that need. But I think it might outstrip what you are ready for. And if you could have somebody come by to talk to me about how flexible you could be if they do add all these additional flights in the fall. I would appreciate it.

Ms. HALLETT. I would be happy to.

[The information follows:]

DULLES AIRPORT

The District Director at Dulles Airport has implemented new shift schedules to accommodate current peaks. With the opening of the new FIS facility, the agencies will implement the Master Plan for Air Passenger Processing for 1990 which will include the Interagency Border Inspection System (IBIS). In addition to the Master Plan and IBIS, Memorandums of Understanding recently signed by Customs and Agriculture and soon to be signed by Customs and INS, will provide a greater cooperative effort to more timely process international arriving passengers.

FINANCIAL IMPROPRIETY

Mr. WOLF. The last two questions deal with—I had a constituent and I have a letter down to you—we do not have to get into it here but if you could respond—on financial impropriety.

It concerns a former Customs employee. I do not know if you have seen the letter that I sent you.

Have you seen the letter that I sent down?

Ms. HALLETT. It does not ring a bell, but I know that we must have it there and I will look into it.

Mr. WOLF. We would be glad to furnish you with a copy if you would have somebody come by my office today, we will be glad to furnish a copy.

Ms. HALLETT. Thank you.

Mr. WOLF. But I would like to have you look into the charges made by this individual and investigate it and get back to me.

[The information follows:]

ALLEGATIONS

Currently, Ms. Gibbs allegations are before the Office of Special Counsel, and the Federal District Court in the District of Columbia.

Since her case is in litigation it is not appropriate to respond to the allegations contained within her letter. The merits of her claim will be adjudicated within these respective forums.

However, the House Ways and Means Oversight Subcommittee has reviewed Customs spending and procurement practices. We are currently preparing a response to the Subcommittee's Report. We will provide you a copy of the Subcommittee's Report and our response upon its completion.

INTEGRITY PROGRAM

Ms. HALLETT. Absolutely.

May I just take that opportunity to tell you about our integrity enhancement program?

Mr. WOLF. Sure.

Ms. HALLETT. We have initiated—actually shortly after I came on-board we felt that the huge number of people in the Customs Service, 17,000 approximately, the vast number of them are honest, hard-working, law-abiding, and yet it only takes a handful of people to go across that line to literally ruin the reputation of everyone else in the Customs Service.

And so, partly because of the whole problem of integrity along the southwest border—but this is not limited to just the southwest border—we asked for volunteers on a two-year period to work through internal affairs to help us in an effort to root out any potential problems that exist and to follow up on those accusations that are brought to us.

We have had 50 agents volunteer for this two-year period; twelve inspectors and the rest are supervisorial level people who are now working full-time in this area. We believe it is going to help us to certainly make a great difference where there are integrity problems.

EMPLOYEE PROGRAMS

Mr. WOLF. Okay. That is important.

The last question that I have—and I will submit the others for the record—is with regard to programs to make it easier for your employees that may have a particular family or personal problem.

One that this committee was active in was the leave- sharing program, whereby, if a Federal employee is dying of cancer or has a heart attack or open heart surgery and has run out of vacation time, their fellow employees can donate their leave time. It costs nothing to the Federal Government.

Is Customs participating in the leave-sharing program?

Ms. HALLETT. We are, yes.

Mr. WOLF. Have you found it to be successful?

Ms. HALLETT. Absolutely. It is very beneficial to employees.

Mr. WOLF. If you could give us a list of how many people are participating in it and what you are doing to make it clear that it is available, I would appreciate it.

The other thing, last year the committee put in some money, earmarked some money for OPM to set up a program for job-sharing——

Ms. HALLETT. Yes.

Mr. WOLF. Where two people can share one job, each person working 20 hours a week. One might want to stay home and take care of a child and the other person might want to go get a graduate degree or take care of his father who is very ill.

Do you have a formal job-sharing program at Customs?

Ms. HALLETT. I do not believe we have a formal program, although, this is something that is being looked at. We have a quality employer program which allows for some flexibility in this area.

But we are really looking right now at all the various possibilities that will benefit employees whether it is job- sharing, whether it is child care. These are issues that are of great concern to me and to the Customs Service.

Mr. WOLF. If you would let me know what you are doing with regard to flex time, flex place and job-sharing and leave-sharing, I would appreciate it.

Ms. HALLETT. Yes. It is all in our quality employer program, and we will be happy to provide that to you.

[The information follows:]

FLEXITIME

Ms. HALLETT. The Customs Service fully supports the use of flexible work times (flexitime), so long as we are able to meet the critical goals of our mission. As you know, the majority of our employees have specific responsibilities for one or both of our two key objectives, law enforcement and service to the public. The effective accomplishment of our mission must, of course, be paramount. However, within this framework, the Service supports flexible work arrangements. In fact, for a number of years, flexitime provisions have been included in the negotiated agreement with the National Treasury Employees Union and flexitime has been available to a number of Customs employees. In addition, flexitime has been expanded in recent years and continues to expand. In all cases, the use of flexitime is determined based on the needs of each organization, balanced with the need and interests of employees.

LEAVE SHARING AND JOB SHARING

Ms. HALLETT. Leave sharing has been fully publicized throughout the Customs Service and has been enthusiastically accepted by our employees. An information notice was distributed to all employees when the program first became available and procedures for becoming a leave recipient and a leave donor were fully explained. In accordance with regulations, Customs has extended the program until October 1993. The revised policy is currently being negotiated with the National Treasury Employees Union prior to its implementation. Specific information on identities of employees who have participated in the program is not available since local timekeepers handle these on a case by case basis. However, many employees have participated in the program.

Customs recently established a Quality Employment Group of top managers to take action on a wide variety of personnel management programs which would upgrade the quality of the work environment and keep Customs competitive in the job market of the 1990's. The Quality Employment Group is pursuing increased use of job sharing as one of its initiatives and has worked with our Regional Commissioners to place greater emphasis on job sharing opportunities. As noted above, Customs is also about to begin renegotiating its National Agreement with the National

Treasury Employees Union, and job sharing is one of the issues for negotiation. Since job sharing is actually a form of part-time employment, we do not keep separate statistics in our automated personnel system that would indicate the number of job sharing arrangements distinct from the other part-time arrangements. However, Customs supports the use of job sharing where the needs of the Service can continue to be met effectively, and job sharing arrangements have been approved on this basis in both Headquarters and field offices.

Mr. WOLF. You may want to make it very easy, offer a telephone number for employees to call and take advantage of job-sharing.

We have seen cases where some agencies have job-sharing, and the administrator of their agency means well, but because of lack of knowledge employees are not participating in it. If you could have some sort of formal way of notifying people that it is available, that would be helpful.

Again I want to thank you for the job you are doing. Mr. Chairman, I will just submit some of the other questions.

Ms. HALLETT. Thank you.

Mr. ROYBAL. Thank you, Mr. Wolf.

AIR PROGRAM

Mrs. Hallett, on the air interdiction program, I see that in your budget the request is for $87 million less than last year.

Ms. HALLETT. I think that was strictly the purchase of aircraft.

Mr. ROYBAL. Just for the purchase of the aircraft, but you have $143 million for this year and you told the committee it was costing you $579 million.

I am assuming that the $579 million includes the $143 million that is being requested. Is that correct?

Ms. HALLETT. Yes, that is correct. That of course is part of the overall enforcement, the air, as well as the rest of the enforcement program.

The combination of the request, the air is actually $143 million and the S&E is $436 million for a combination of $579.

Mr. ROYBAL. All right. Now for the record I would like to have some things submitted. That is, the number of seizures, drugs, by type and amount.

Ms. HALLETT. Yes.

Mr. ROYBAL. I would like to know how many arrests.

Ms. HALLETT. Yes.

Mr. ROYBAL. And I suppose it would be a good thing to know how many convictions.

Ms. HALLETT. Absolutely.

Mr. ROYBAL. Because arrests alone do not mean that we are doing the job correctly.

Ms. HALLETT. Yes.

Mr. ROYBAL. I would appreciate it if you would submit that for the record.

I would like to know also how many aircraft and other major items of equipment have been transferred to this program since it started in 1984.

I would like to have you provide for the record, also, a complete inventory of the aircraft and other major items of equipment in the air program.

And I suppose that can be done by type and source of acquisition.

Ms. HALLETT. We would be happy to provide that.

[The information follows:]

NUMBER OF DRUG SEIZURES BY OFFICE OF AVIATION OPERATIONS

Commissioner Hallett: The number and quantity of drug seizures, and arrests, are as follows:

Description	FY 85	FY 86	FY 87	FY 88	FY 89
# Seizures	159	103	138	219	203
Cocaine (lbs.)	17,730	17,716	23,240	56,545	71,764
Marijuana (lbs.)	226,558	232,612	171,083	138,593	121,508
Arrests	313	194	252	476	569

All arrests made by the Office of Aviation Operations are routinely turned over to DEA or other Federal, state and local investigative agencies for prosecution. Therefore, no reliable information is available on the ultimate convictions of these initial arrests or the number of additional co-conspirator arrests and seizures.

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Seizures for Violations of Laws Enforced by Customs

Fiscal Year	1985	1986	1987	1988	1989
Prohibited non-narcotic articles					
Number of seizures	15,849	12,785	32,254	12,828	10,391
Vehicles					
Number of seizures	9,323	8,911	11,400	12,073	12,434
Domestic value	$80,666,094	$74,597,069	$84,806,987	$97,570,348	$100,369,094
Aircraft					
Number of seizures	145	123	176	129	180
Domestic value	$150,448,420	$17,414,450	$112,479,486	$204,642,984	$202,455,300
Vessels					
Number of seizures	524	292	535	374	333
Domestic value	41,226,619	$14,423,560	$23,783,142	$122,585,167	$58,837,547
Monetary Instruments					
Number of seizures	1,114	1,370	2,138	3,064	4,084
Domestic value	$95,838,434	$121,535,526	$102,382,985	$165,296,007	$224,852,513
General merchandise					
Number of seizures	32,679	30,489	40,257	23,966	22,343
Domestic value	$277,339,278	$237,849,607	$417,750,271	$477,937,807	$509,247,906
Total Seizures	59,634	53,970	86,760	52,434	49,765
Total Domestic Value	$645,518,845	$465,820,212	$741,202,871	$1,068,032,313	$1,095,762,360

Seizures of Narcotics and Dangerous Drugs

Fiscal Year	1985	1986	1987	1988	1989
Heroin					
Number of seizures	426	406	527	322	452
Quantity (in lbs.)	784.6	692.4	639.0	1,350.5	1,055.0
Cocaine					
Number of seizures	2,164	2,577	2,158	2,333	2,042
Quantity (in lbs.)	50,506..4	52,520.9	87,898.3	137,408.4	128,123.6
Hashish					
Number of seizures	1,948	2,158	1,930	1,675	1,656
Quantity (in lbs.)	22,970.0	17,555.4	1,073.2	94,475.1	51,476.1
Marijuana					
Number of seizures	12,002	10,377	14,569	11,226	10,159
Quantity (in lbs.)	2,389,704.1	2,211,068.1	1,701,149.6	969,966.7	642,318.6
Opium					
Number of seizures	1,118	807	538	952	3,384
Quantity (in lbs.)	503.0	321.2	1,014.6	1,482.7	901.3
Morphine					
Number of seizures	10	8	8	12	26
Quantity (in lbs.)	3.3	0.6	4.2	20.1	10.3
Other Drugs, Barbiturates and LSD					
Number of seizures	2,179	2,680	3,345	2,726	2,541
Quantity (in units)	22,540,573	1,424,682	3,881,793	282,317	2,616,853
Total Seizures	15,280	19,013	18,078	19,246	20,260

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LONG RANGE PLAN

Commissioner Hallett: The mission of Aviation Operations is to prevent narcotics smuggling by air. As mandated in the 1988 National Air Interdiction Strategy which is Customs Long Range Plan, Aviation Operations' objective is to reduce general aviation smuggling by 50 percent by 1992.

In order to accomplish this objective, Aviation Operations developed and implemented an interdiction strategy. With some exception, the Strategy is generally proceeding according to schedule:

- Both C3Is are embarked on initial operations.
- The original Aerostat Program, except Great Inagua, is expected to be completed during FY 1990. Development of the Great Inagua site will be contingent upon site approval by Bahamian Government authorities.
- The first P-3 AEW was accepted by Customs on June 17, 1988. The second was accepted in April, 1989. The third is in the initial planning stages.
- Ten interceptors/trackers were delivered in 1989. The final 10 aircraft are expected to be delivered in 1991.
- The Black Hawk program was completed during the third quarter of 1989 with the delivery of two aircraft. This gives USCS a total of 16 UH-60 Black Hawks, achieving the interdiction "module design level" for apprehension.

INVENTORY/SOURCE OF CUSTOMS AIR PROGRAM
(MAJOR) EQUIPMENT SINCE 1984

Commissioner Hallett: The Customs Air Program inventory of (major) equipment since 1984 consists of the following listed tethered aerostats as well as the aircraft listed on the attached charts. Please note that the sources for this equipment is also provided.

Aerostat Inventory

Aerostat Site	Source
Yuma, Arizona	Procured from the Original Equipment Manufacturer(OEM)
Ft. Huachuca, Arizona	Procured from the OEM
Deming, New Mexico	Procured from the OEM

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AIRCRAFT INVENTORY/DEPLOYMENT
1984

FUNCTION

AIR INTERDICTION	MIA*	JAX*	MSY	HOU	CRP	SAT	ELP*	TUC*	SAN*	TOTAL
DETECTION										
P-3A[1]			1							1
INTERCEPTORS										
Citation I[2]								1		1
Citation II[2]	2									2
TRACKERS										
OV-1C[1]		1		1						2
King Air 200/E-90[2]	1		1			1	1	1		5
APPREHENSION										
AH-1G/TH-1G[1]				1			1	1	1	4
UH-60A[1]	2	1	1							4
TOTAL	**5**	**2**	**3**	**2**	**0**	**1**	**2**	**3**	**1**	**19**

ENFORCEMENT SUPPORT										
Twin[3]	5	5	3	1		3	2	1	3	23
Single-Engine[4]		2		2			2	2	1	9
Helicopter[5]	1	1	1	1		1	2	2	2	11
SUBTOTAL	**6**	**8**	**4**	**4**		**4**	**6**	**5**	**6**	**43**
TOTAL	**11**	**10**	**7**	**6**	**0**	**5**	**8**	**8**	**7**	**62**

* - Includes Air Units

1 Source - Department of Defense.
2 Source - Purchased from the Original Equipment Manufacturer (OEM).
3 Source - All were acquired from seizure with the exception of a Beechcraft Duke and Piper Aerostar which were acquired from the OEM.
4 Source - All were acquired from seizure.
5 Source - Three were acquired from the OEMs and eight UH-1s were acquired from the Department of Defense.

AIRCRAFT INVENTORY/DEPLOYMENT
1985

FUNCTION

AIR INTERDICTION	MIA*	JAX*	MSY	HOU	CRP	SAT	ELP*	TUC*	SAN*	TOTAL
DETECTION										
P-3A[1]			2					2		4
INTERCEPTORS										
Citation II[2]	2	1	1			1		1		6
TRACKERS										
OV-1C[1]				2						2
King Air 200/E-90[3]	1		1			1	1	1		5
APPREHENSION										
AH-1G/TH-1G[1]				1			2			3
UH-60A[1]	2	1	1					1	1	6
TOTAL	**5**	**2**	**5**	**3**	**0**	**2**	**3**	**5**	**1**	**26**

ENFORCEMENT SUPPORT										
Twin[4]	6	8	3	3		3	2	2	4	31
Single-Engine[5]	1	1		2			2	2	1	9
Helicopter[6]	1	2	1	1		1	2	2	3	13
SUBTOTAL	**8**	**11**	**4**	**6**		**4**	**6**	**6**	**8**	**53**
TOTAL	**13**	**13**	**9**	**9**	**0**	**6**	**9**	**11**	**9**	**79**

* - Includes Air Units

[1] Source - Department of Defense.
[2] Source - Two were purchased from the Original Equipment Manufacturer (OEM) and four were leased from the OEM under lease/purchase contract.
[3] Source - Purchased from the OEM.
[4] Source - All were acquired from seizure with the exception of the Citation I which was acquired from the OEM.
[5] Source - All were acquired from seizure with the exception of a T-41 that was acquired from DEA.
[6] Source - Four were acquired from the OEMs and nine UH-1s were acquired from the Department of Defense.

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AIRCRAFT INVENTORY/DEPLOYMENT
1986

FUNCTION

AIR INTERDICTION	MIA*	JAX*	MSY	HOU	CRP	SAT	ELP*	TUC*	SAN*	TOTAL
DETECTION P-3A[1]			2					2		4
INTERCEPTORS Citation II[2]	2	1	1			1		1		6
TRACKERS Piper Cheyenne (CHET)[3] King Air 200/E-90[3]	1		 1	1 1		 1	 1	 1	1	3 5
APPREHENSION UH-60A[1]	2	1	1					2	2	8
TOTAL	**5**	**2**	**5**	**2**	**0**	**2**	**1**	**6**	**3**	**26**

ENFORCEMENT SUPPORT										
Twin[4] C-12 (Beechcraft 200)[1]	6	9	4	3		4	3	2 2	4	35 2
Single-Engine[5]	1	1		1			2	2	1	8
Helicopter[6]	1	2	1	1		1	2	2	3	13
SUBTOTAL	**8**	**12**	**5**	**5**	**0**	**5**	**7**	**8**	**8**	**58**
TOTAL	**13**	**14**	**10**	**7**	**0**	**7**	**8**	**14**	**11**	**84**

* - Includes Air Units

[1] Source - Department of Defense
[2] Source - Two were purchased from the Original Equipment Manufacturer (OEM) and four were leased from the OEM under a lease/purchase contract.
[3] Source - Purchased from the OEM.
[4] Source - All were acquired from seizure with the exception of the Citation I which was acquired from the OEM.
[5] Source - All were acquired from seizure with the exception of a T-41 that was acquired from DEA.
[6] Source - Four were acquired from the OEMs and nine UH-1s were acquired from the Department of Defense.

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AIRCRAFT INVENTORY/DEPLOYMENT
1987

FUNCTION

AIR INTERDICTION	MIA*	JAX*	MSY	HOU	CRP	SJT*	ABQ*	TUC*	SAN*	TOTAL
DETECTION										
P-3A[1]					4					4
E-2C[1]					2					2
INTERCEPTORS										
Citation II[2]	2	1	1			1		1		6
TRACKERS										
Piper Cheyenne (CHET)[3]	2		1	1		1	1	1	1	8
King Air 200/E-90[3]		1		1		1	1	1		5
APPREHENSION										
UH-60A[1]	2	1	2	1		1	1	3	1	12
TOTAL	6	3	4	3	6	4	3	6	2	37

ENFORCEMENT SUPPORT										
C-12 (Beech King Air 200)[1]	1		1			1	1	1	1	6
Twin[4]	6	6	3	2	1	3	2	2	5	30
Single-Engine[5]		1		1			1	2	1	6
Helicopter[6]		2	1	1		1		1	2	8
SUBTOTAL	7	9	5	4	1	5	4	6	9	50
TOTAL	13	12	9	7	7	9	7	12	11	87

* - Includes Air Units

1 Source - Department of Defense
2 Source - Two were purchased from the Original Equipment Manufacturer (OEM) and four were leased from the OEM under a lease/purchase contract.
3 Source - Purchased from the OEM.
4 Source - All were acquired from seizure with the exception of the Citation I which was acquired from the OEM.
5 Source - All were acquired from seizure with the exception of a T-41 that was acquired from DEA.
6 Source - Four were acquired from the OEMs and four UH-1s were acquired from the Department of Defense.

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AIRCRAFT INVENTORY/DEPLOYMENT
1988

FUNCTION

AIR INTERDICTION	MIA*	JAX*	MSY	HOU	CRP	SJT*	ABQ*	TUC*	SAN*	TOTAL
DETECTION										
P-3A[1]					4					4
P-3B AEW[2]					1					1
E-2C[1]					2					2
INTERCEPTORS										
Citation II[3]	2	1	1			1		1		6
TRACKERS										
Piper Cheyenne (CHET)[2]	2		1	1		1	1	1	1	8
APPREHENSION										
UH-60A[1]	2	1	2	1		2	1	2	1	12
TOTAL	**6**	**2**	**4**	**2**	**7**	**4**	**2**	**4**	**2**	**33**

ENFORCEMENT SUPPORT										
Beechcraft King Air 200[2]		1		1		1	1			4
Beechcraft King Air E-90[2]								1		1
C-12 (Beech King Air 200)[1]	1		1			1	1		2	6
Twin[4]	6	7	3	2	2	2	2	2	2	28
Single-Engine[5]		1		1			1	2		5
Helicopter[6]		2	1	1		1			2	7
SUBTOTAL	**7**	**11**	**5**	**5**	**2**	**5**	**5**	**5**	**6**	**51**
TOTAL	**13**	**13**	**9**	**7**	**9**	**9**	**7**	**9**	**8**	**84**

* - Includes Air Units

1 Source - Department of Defense
2 Source - Purchased from the Original Equipment Manufacturer (OEM).
3 Source - Two were purchased from the OEM and four were leased from the OEM under a lease/purchase contract.
4 Source - All were acquired from seizure with the exception of the Citation I which was acquired from the OEM.
5 Source - All were acquired from seizure with the exception of a T-41 that was acquired from DEA.
6 Source - Three were acquired from the OEMs and four UH-1s were acquired from the Department of Defense.

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AIRCRAFT INVENTORY/DEPLOYMENT
1989

FUNCTION

AIR INTERDICTION	MIA*	JAX*	MSY	HOU	CRP	SJT*	ABQ*	TUC*	SAN*	TOTAL
DETECTION										
P-3A[1]					4					4
P-3B AEW[2]					2					2
E-2C[1]					2					2
INTERCEPTORS										
Citation II[3]	2		3	2		2	2	3		14
TRACKERS										
Piper Cheyenne (CHET)[2]	2	2				1		1	2	8
APPREHENSION										
UH-60A Black Hawk[1]	2	2	2	2		2	2	2	2	16
TOTAL	**6**	**4**	**5**	**4**	**8**	**5**	**4**	**6**	**4**	**46**

ENFORCEMENT SUPPORT										
Beechcraft King Air 200[2]		1		1		2				4
Beechcraft King Air E-90[2]								1		1
C-12 (Beech King Air 200)[1]	1		1				2		2	6
Twin[4]	6	7	3	2	2	2	2	2	1	27
NOMAD[5]	3									3
Single-Engine[6]	1	1		1			2	2	2	9
Helicopter[7]		1	1			1			2	5
SUBTOTAL	**11**	**10**	**5**	**4**	**2**	**5**	**6**	**5**	**7**	**55**
TOTAL	**17**	**14**	**10**	**8**	**10**	**10**	**10**	**11**	**11**	**101**

* - Includes Air Units

[1] Source - Department of Defense
[2] Source - Purchased from the OEM.
[3] Source - Eight were purchased from the Original Equipment Manufacturer (OEM), four were leased from the OEM under a lease/purchase contract, one was acquired through forfeiture, and one was procured from the U.S. Postal Service.
[4] Source - All were acquired from seizure with the exception of the Citation I which was acquired from the OEM.
[5] Source - Barter agreement between U.S. Department of Defense and Australian Department of Defense.
[6] Source - All were acquired from seizure witn the exception of a T-41 that was acquired from DEA.
[7] Source - Three were acquired from the OEMs and two UH-1s were acquired from the Department of Defense.

NOTE: E-2Cs returned to the U.S. Navy in July 1989.

AIRCRAFT INVENTORY/DEPLOYMENT
1990 (AS OF MARCH 8, 1990)

FUNCTION

AIR INTERDICTION	MIA*	JAX*	MSY	HOU	CRP	SJT*	ABQ*	TUC*	SAN*	TOTAL
DETECTION										
P-3A[1]					4					4
P-3B AEW[2]					2					2
INTERCEPTORS										
Citation II[3]	3		3	2		3	2	3		16
TRACKERS										
Piper Cheyenne (CHET)[2]	1	3						1	3	8
APPREHENSION										
UH-60A Black Hawk[1]	2	2	2***	1		2	2	2	2	15
TOTAL	**6**	**5**	**5**	**3**	**6**	**5**	**4**	**6**	**5**	**45**

ENFORCEMENT SUPPORT										
Beechcraft King Air 200[2]		1		1		2				4
Beechcraft King Air E-90[2]								1		1
C-12 (Beech King Air 200)[1]	1		1				2		2	6
Twin[4]	6	7	3	2	2	2	2	2	1	27
NOMAD[5]	4**	1	2							7
Single-Engine[6]	1	1		1			2	2	2	9
Helicopter[7]		1	1			2		1	3	8
SUBTOTAL	**12**	**11**	**7**	**4**	**2**	**6**	**6**	**6**	**8**	**62**
TOTAL	**18**	**16**	**12**	**7**	**8**	**11**	**10**	**12**	**13**	**107**

* - Includes Air Units
** - One of these will be assigned to San Diego.
*** - One of these is undergoing crash damage repairs.

1 Source - Department of Defense
2 Source - Purchased from the Original Equipment Manufacturer (OEM).
3 Source - Twn were purchased from the OEM, four are being leased from the OEM under a lease/purchase contract, one was acquired from forfeiture, and one was procured from the U.S. Postal Service.
4 Source - All were acquired from seizure with the exception of the Citation I which was acquired from the OEM.
5 Source - Barter agreement between U.S. Department of Defense and Australian Department of Defense.
6 Source - All were acquired from seizure with the exception of a T-41 that was acquired from DEA.
7 Source - Six were acquired from the OEMs and two UH-1s were acquired from the Department of Defense.

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PROPERTY TRANSFERRED TO THE CUSTOMS AIR PROGRAM FROM OTHER AGENCIES

Commissioner Hallett: Since 1984, the following equipment has been transferred to the Customs Air Program from other agencies:

Equipment Type	Number of Units	Source
Black Hawk Helicopters	12*	DOD/U.S. Army
P-3As	4	DOD/U.S. Navy
E-2C Hawkeyes**	2	DOD/U.S. Navy
C-12 (Beechcraft 200)	6	DOD/U.S. Army
APS-125 Radar	1	DOD/U.S. Navy

* = One of these crashed at sea. In addition to these 12 helicopters, four other Black Hawk helicopters were made available to Customs by the Department of Defense. Congress appropriated funds in the Defense Drug Interdiction Assistance Act for the procurement of eight Black Hawk helicopters to be made available to U.S. agencies as determined by the National Drug Policy Board. Four of those eight helicopters were made available to Customs.

** = The E-2C Hawkeyes were returned to the U.S. Navy in July 1989.

Mr. ROYBAL. Some of this has been transferred from other departments.

Then maybe included in that any long-range plan that you have for additional equipment.

Ms. HALLETT. Yes.

Mr. ROYBAL. And where you think that can come from.

I am sure that there have been some seizures and forfeits of aircraft that have taken place. I would like you to bring us up to date about that activity.

You are requesting $87 million less for this program than last year. By looking at this, one can assume that you have reached an appropriate level of equipment.

Would that be a correct assumption?

Ms. HALLETT. I believe that is a correct assumption, Mr. Chairman. Of course we are constantly readjusting our needs, looking at the shift in patterns of the traffickers. We certainly have to be able to reflect on the change in the southwest border and the intensity of trafficking there.

And I think with the equipment we have, particularly with the air program, that we are adjusting to that accordingly.

AEROSTAT PROGRAM

Mr. ROYBAL. Alright. One other thing is the criticism in the media about the Aerostat Program.

Ms. HALLETT. Yes.

Mr. ROYBAL. Why do you not tell us something about that and whether or not this criticism is justified?

Ms. HALLETT. Mr. Chairman, I am convinced that the Aerostat Program is a very successful one for the Customs Service. We have the three aerostats that are currently operating along the southwest border with considerable efficiency.

In addition to that, we have the three new aerostats that are being tested by GE. The one which of course had the problem with the tether and had to be brought down, was still in the testing stage. It had not been turned over to the Customs Service.

I think that our figures in terms of operation are very good. They continue to go up. For 1989, we showed that the aerostats were up 66 per cent of the time. For Fiscal Year 1990, that was up to 73 per cent of the time.

I think that you combine that with the addition of aerostats coming on-line, and I would like to—even though it is not the question you asked me—I would like to just throw in that, where we have down periods, particularly with the three GE balloons that are being tested currently for turning over to us, we are filling in that gap not only with the P-3 aircraft, but also with other detection devices.

And I am convinced that we are seeing a steady increase in usefulness of the aerostat balloons.

Mr. ROYBAL. If you would like to add anything more for the record, it will be included in the record at this point.

Ms. HALLETT. Thank you.

FY 1991 BUDGET REQUEST

Mr. ROYBAL. One last thing, and that is with regard to your budgetary request of $1.280 billion.

If you get that amount of money, would you be able to keep in place the personnel that you now have, including those authorized?

Ms. HALLETT. I believe that is correct. We will be able to maintain current levels, however, due to the absortions and sequestration I do not believe we will be able to reach the current staffing floor.

Mr. ROYBAL. Mr. Lowery, do you have any additional questions?

MILITARY DRUG ENFORCEMENT PARTICIPATION

Mr. LOWERY. Mr. Chairman, just a couple more.

Mrs. Hallett, how would you evaluate the military participation to date in the war on drugs? And how could future military involvement be improved?

Ms. HALLETT. Congressman Lowery, we are working closely with the Department of Defense. In a variety of areas they are now starting to play a key role. And in fact they are not newcomers in this area. They have already been flying Blackhawk helicopters for a number of years with all of us in the air interdiction war.

In addition to that, with particularly JTF-6 along the southwest border, in combination with Operation Alliance, which is the southwest border operation that falls under the jurisdiction of the Department of Treasury—but also of course is a key operation for all of our various agencies—I think we are seeing a very close working relationship.

We add to that the National Guard, which is essentially an important element to the Customs Service at ports of entry, as well as our seaports, for processing cargo and our airports; certainly the bases that are utilized along with training that is being provided by the military. And I think the equipment that is available to it.

We have just put in a request for surplus helicopters. We are not alone in making requests for equipment. I think that it is obviously a new relationship that is just developing.

I think that what used to be the TIC committee, The Interdiction Committee which has now been changed to the BIC committee, which is the Border Interdiction Committee, we find that that working relationship is continuing with the addition of the Department of Defense being a permanent member of that committee.

The committee is chaired by Customs and had been designated with the Deputy Director being the Commandant of the Coast Guard.

So, I think that we are seeing that this is going to be a great benefit to all of the agencies, including the Department of Defense.

Mr. LOWERY. The DOD strategy has been to provide support to other agencies. From Customs' perspective, is that an appropriate strategy, and how effective is the Department of Defense's support of Customs?

Ms. HALLETT. Well, I think that generally speaking we are certainly seeing support. It is new. And I think we are working together on this to develop ways in which we can work together, not only the utilization of radar.

In fact, we have asked the Department of Defense to take over the operation of our aerostat balloons because it makes sense from the standpoint of all of the telemetry coming into one spot. We are hopeful that with fiscal year 1992 they will take on that responsibility. This is part of the working relationship that is building up.

Mr. LOWERY. You are telling me the involvement is welcome, is it not?

Ms. HALLETT. Yes. I think it remains to be seen, and I go back to what I have said, and that is that we are in the growing stages right now, determining what they will be able to provide, what we can provide.

I would just make one comment, and that is that there is more than enough work out there for all of us. Until we are able to beat this enemy, then we all need to be working side by side. I think that is the goal that we are all working towards.

Mr. LOWERY. It seems that DOD's contribution falls under the category of providing equipment or providing personnel.

Do you need both? If you had to put an emphasis on it, what would you prefer?

[The information follows:]

DEPARTMENT OF DEFENSE'S CONTRIBUTION

As the new lead for detection and monitoring, the entry of DOD into the drug war foray has had both positive and negative effects on the Customs drug enforcement mission. Those which fall within the negative spectrum can generally be attributed to growing pains.

As previously stated, DOD has brought to bear detection assets which otherwise might not have been available for the drug war. These assets, which include ground-based radar and airborne radar surveillance (E-2C/AWACS) platforms, as well as the trained personnel to operate this equipment, have provided a big boost to the overall effort in drug interdiction.

DOD provides an additional detection capability not otherwise presently available at our Command, Control, Communications and Intelligence (C3I) Centers. These additional DOD capabilities enhance rather than duplicate our current network for sorting target information.

However, not to diminish the positive side of DOD's efforts, we have experienced some minor problems, mostly related to the scheduling of detection and monitoring assets. We are meeting with DOD regularly to work these problems out.

Ms. HALLETT. I think we need both. I think, as I say, there is room for both out there. I believe that there is a commitment by the Department of Defense to add manpower as well as equipment.

It is going to be a very important ingredient that will help us.

Mr. LOWERY. Did you discuss reimbursing DOD for the equipment?

Ms. HALLETT. In some cases, yes. As an example, one of the proposals that we are discussing at this time for helicopters would require a significant amount of money to make those helicopters flyable again.

So, at least in our present discussions we would be paying for those costs.

Mr. LOWERY. Does DOD include training with the equipment that is provided?

Ms. HALLETT. Yes.

Mr. LOWERY. Are they integrated packages?

Ms. HALLETT. Yes. They provide the training as well.

EXPRESS LANES

Mr. LOWERY. I know we don't want to run afoul of the GATT agreements, but it strikes me that some of the delays that we have been facing and your interest in trying to cut down on those backlogs, but has been legitimate commerce travelling back and forth across ports of entry.

What do you think the idea of a program where a user fee would be charged, possibly a dollar a car, optional basis for express lanes through some of our ports of entry? Is that something that the Customs Service would be interested in pursuing?

[The information follows:]

USER FEE EXPRESS LANES

Currently, a study is being conducted to determine the feasibility of "express" or "commuter" lanes at U.S. land borders. After all necessary operational aspects of this project are studied, consideration could be given to assessing a user fee for commuter lane usage. A project such as this will have to be fully coordinated with the Immigration and Naturalization Service.

Ms. HALLETT. Congressman Lowery, it is very interesting, because this morning I had breakfast with Gene McNary the Commissioner of INS. We discussed exactly that proposal. We had previously discussed it.

We think there is great merit and potential for something along these lines, where with a designated card that would identify not only the carrier of that card but the vehicle that they were utilizing, that it would provide for a lane whereby, probably for about 50-cents per vehicle coming through, we would be able to process in a very quick manner that individual.

I am convinced that there is great and significant potential for this kind of a new mechanism.

Mr. LOWERY. You will need legislation to do this?

Ms. HALLETT. That's correct.

Mr. LOWERY. When do you think you would have a package together?

Ms. HALLETT. We are talking about it. We don't have a package put together. But the first step would of course be to present that proposal to the Treasury and OMB.

In the case of INS—and we are talking about something that would be a joint proposal—INS of course would then be in the position of presenting it to Justice and OMB.

I don't know how quickly something like this could be done, but it is something that would certainly help facilitate passengers coming into the United States.

Mr. LOWERY. I would certainly hope we could move that as quickly as possible. As a representative in Congress from the busiest port of entry on the earth, I think we would be interested in it and I would certainly hope that OMB would agree to have those funds collected earmarked specifically for Customs and INS.

Ms. HALLETT. Thank you.

Mr. LOWERY. Thank you. Thank you, Mr. Chairman.

Mr. ROYBAL. Any other questions?

[No response.]

Mr. ROYBAL. If not, I would like to thank you for your testimony.

Ms. HALLETT. Mr. Chairman, I really appreciate not only this opportunity to appear before you, but particularly for the great support that you have shown the Customs Service over the many years, and not only are we grateful to you and the subcommittee, but we look forward to a continued very close and warm working relationship.

Mr. ROYBAL. Thank you very much.

Ms. HALLETT. Thank you.

Mr. ROYBAL. We have some questions from some other Members, and we would like to have those answered for the record.

Ms. HALLETT. Certainly. We will be happy to provide them.

Thank you.

Mr. ROYBAL. The committee is now adjourned.

[Questions and answers for the record and the justifications follow:]

INTERAGENCY BORDER INSPECTION SYSTEM (IBIS)

Congressman Early: The FY 90 Bill provides up to $7 million for the Interagency Border Inspection System (IBIS). How much is Customs allocating for the Machine-Readable Visa Project in FY 90? How will the funds allocated be used?

Commissioner Hallett: Customs has allocated the entire $7 million authorized for the Interagency Border Inspection System (IBIS). The Machine Readable Visa (MRV) effort is only one part of IBIS. Customs has spent $25,000 to develop software to allow the existing passport readers to read multiple travel and identification documents, including visas. The Immigration and Naturalization Service (INS) has committed almost $900,000 to retrofit the existing passport readers with the new multi-document software, plus adding 200 new multi-document readers. The State Department is funding the actual development and issuance of the machine readable visas.

The full $7 million is being allocated within Customs as follows (in $000's):

o	Data center hardware	1,560
o	Front end processors	700
o	Communications software	250
o	Secondary terminals	500
o	Data center site preparation	300
o	Employee salaries and benefits	700
o	Data communications	1,000
o	Computer operations contract support	1,000
o	Application development contractors	300
o	Online storage for I-94 data	690
	Total	7,000

Congressman Early: What is the overall status of this project?

Commissioner Hallett: The overall status of the IBIS project is "on target". There have been some delays in the implementation of certain airport and land border sites due to construction problems or delayed telecommunication circuit orders, but, overall, the project is proceeding on schedule. The modifications of TECS software to accommodate INS have all been completed and the retrofitting of the passport readers is on schedule with more than 40 of the original 650 readers converted. The joint Customs/INS/State Staff, working group, and Steering Committee are working extremely well.

The implementation process has progressed smoothly with the first IBIS site, Detroit, being installed only five months and eight days after the original OMB recommendation that resulted in the establishment of the Interagency Border Inspection System. By the end of March 1990, a total of nine sites will be operational under the IBIS configuration.

Congressman Early: Last year, the Commissioner indicated that the Customs Service was working closely with State, INS and FAA to prepare a detailed implementation plan. Is this plan complete? Briefly summarize this plan. I would appreciate receiving a copy of this plan.

Commissioner Hallett: Customs, INS and State developed a "Tri-Agency Machine Readable Document (MRD) Plan" in response to the Anti-Drug Abuse Act of 1988. The plan was signed independently by each of the three agencies in March, 1989, then forwarded to OMB for consolidation. Please contact OMB for a copy of this report. In summary, the plan provides for:

- Issuance of enhanced MRD AUDIT cards by INS.
- Issuance of MRD passports and visas by State Department.
- Issuance of MRD pilots licenses by FAA.
- Design and implementation of IBIS.

Congressman Early: What is the estimated timetable for full implementation of the machine-readable visa project? The overall IBIS?

Commissioner Hallett: Implementation of the machine readable visa project is dependent on the issuance process currently being tested by the State Department. At this time, we understand that they expect delays in full implementation of the MRV's. Customs and INS believe that we are ready for full implementation when the State Department makes the visas available.

Customs expects to complete the implementation of IBIS at major airports and land borders by the end of fiscal year 1992. However, we alsc expect to continue beyond this time to install IBIS configurations at smaller ports of entry as appropriate, and continue to improve and enhance the IBIS software and related operational procedures.

Congressman Early: What are the tasks for the Customs Service in FY 90 under this plan? What are the associated costs of carrying out these tasks?

Commissioner Hallett: The Customs Service has the following task assignments for the IBIS project in FY 1990:

- Dedication of mainframe, front-end, online storage, and other TECS data center resources ($3,800,000).
- Development/modification of TECS inspection software to jointly support both Customs and INS inspection operations ($350,000).
- Installation of terminals and printers to support Customs secondary inspection operations ($550,000).
- Network expansion, facility modification and ongoing network charges to support the installation and operation of INS and Customs equipment at airports and land borders ($1,450,000).
- Development of an I-94 (INS entry/exit document for non-immigrants) data capture and retrieval process ($850,000).

Congressman Early: What are the tasks for the Customs Service in FY 1991 under this plan? What are the associated costs for carrying out these tasks?

Commissioner Hallett: The IBIS tasks and associated costs for Customs in FY 1991 will be approximately the same as for FY 1990. INS plans to continue the installation of their airport/land border configurations at the same pace as this year meaning that the related Customs costs for both data center resources and network support will be roughly the same. Planned costs for FY 1991 are:

- Dedication of mainframe, front-end, online storage, and other TECS data center resources ($4,800,000).
- Enhancement/maintenance of TECS software ($200,000)/
- Installation of terminals and printers to support customs secondary inspection operations ($550,000).
- Network expansion, facility modification and ongoing network charges to support the installation and operation of INS and Customs equipment at airports, land borders, and private aircraft sites ($1,450,000).

Congressman Early: How much is included in the FY 1991 request for the machine readable document process?

Commissioner Hallett: $7 Million of the Customs Service FY 1991 budget submission is intended for IBIS

Congressman Early: How is your working relationship with State and INS? Have you encountered any problems?

Commissioner Hallett: The working relationship with INS and State has been excellent. We have established a joint INS/Customs staff at the Customs Data Center dedicated to the IBIS project. We also have a joint INS/Customs/State/APHIS working group which meets every two weeks to provided detailed guidance on technical and operational issues. At the senior executive level, the IBIS Steering Committee, with members from INS, Customs, State, APHIS, and the Office of National Drug Control Policy (ONDCP) meets quarterly to provide policy direction and resolve funding and other issues. There have been some instances of "turf" conflicts between Customs and INS staff in the field, but these conflicts have been relatively minor and are quickly resolved through the efforts of the joint project groups.

Congressman Early: How many of the 12 airports scheduled for IBIS implementation in FY 1990 will receive the system? What are your plans for FY 1991?

Commissioner Hallett: All 12 airports scheduled for FY 1990 will receive IBIS. So far in FY 1990, IBIS has been installed at San Francisco, San Juan, and Dallas. Installation is currently in progress in Los Angeles, New York (JFK), and Honolulu. The remaining sites for this fiscal year are Houston, Orlando, Seattle, Chicago, Atlanta, and Washington/Dulles. IBIS will also be installed this fiscal year at a land border site in Nogales. We have plans for an additional 10 airports and land borders in FY 1991.

CARGO INSPECTIONS

Congressman Skeen: Perhaps the most troublesome aspect of drug interdiction is the vast amounts of container cargo brought into this country and the limited inspections of the cargo. Would you provide this Committee with your comments on how Customs is addressing this problem? What is being done in technological research to help identify drugs in containers?

Commissioner Hallett: Our interdiction efforts include an added emphasis on a container strategy for detecting large loads of cocaine and marijuana in containers. The container strategy employees a multi-faceted approach including: refining and converting raw intelligence gained in narcotics sources areas into specific targets; utilizing advance trade information for pre-arrival identification of high-risk containers; increasing the number of 100 percent container inspections.

Customs specialized intelligence groups provide a vital link with other federal, state and local law enforcement agencies and our inspectional personnel. These units are responsible for pulling together and developing pertinent information into examination criteria for the Automated Commercial System's Cargo Selectivity module.

Customs continues to improve and modify our Automated Commercial System with enforcement targeting in mind. We have concentrated on streamlining paper processing, facilitating low risk shipments, and narrowing our examination criteria to specific elements or conditions. The Automated Manifest System provides the necessary advance trade information utilized for pre-arrival targeting.

Special operations involving Contraband Enforcement Teams (CETs), National Guard and field inspections have targeted high risk containers, and led to intensive examinations on increased numbers of containers.

In addition, Customs had also developed an automated Port Tracking System. This system will allow managers to determine the number of containers which are arriving at their ports, and track the results on narcotics examinations that have been performed on containers and containerized cargo. This system will assist us in identifying the areas and carriers that pose the greatest threat and assist us in allocating our resources.

Customs has undertaken extensive efforts to develop new and specialized technologies to improve the effectiveness of drug interdiction. These include: infra-red/laser range finder; nuclear magnetic resonance; antibodies; pre-concentration technology; and applied computer and microprocessor technology (Expert System/Artificial Intelligence).

A multi-agency effort, coordinated by Customs, has been initiated in an effort to solicit private industries' participating in research and development of drug detection devices aimed primarily at commercial containers. Bids were submitted by interested parties and have been evaluated and prioritized by a multi-agency team on a competitive/objective basis. Contracts are expected to be awarded in the near future.

FINANCIAL CRIMES ENFORCEMENT NETWORK

Congressman Skeen: Last year, $18 million was added to the Customs account for the establishment of the Financial Crimes Enforcement Network (FinCEN). Your budget for FY 1991 includes an additional $16 million. I am concerned that FinCEN is funded by the Customs Service rather than by the Office of the Secretary of Treasury. Why is a multi-agency operation such as FinCEN under Customs and not the Departmental Offices?

Commissioner Hallett: As you may be aware, the timing and development of FinCEN did not run parallel to the appropriations cycle, which complicated the administration of the initiative. The Customs Service was in a position to lead the efforts to get the project off the ground and provide the majority of staffing. Therefore, we have acted as the Executive Agent to administer FinCEN resources this year.

I would also like to note that the $16.2 million currently included for FinCEN in Customs FY 1991 budget request represents total FinCEN resources and is not in addition to the FY 1990 financial plan. The amount allocated for FinCEN in FY 1990 is $13.4 million. The Customs Service will be sending formal notice to the Appropriations subcommittees of our intentions to use the other $4.6 million for other purposes.

SOUTHWEST BORDER FACILITIES

Congressman Skeen: GSA indicated that Customs had identified eight locations along the Southwest Border where improvements were needed in border crossings. Would you please identify these locations and what the problems are and what your suggestions for improvements are?

Commissioner Hallett: In conjunction with GSA and the other Federal Inspection Services, Customs has identified and planned or initiated 63 major projects to improve facilities along the Southwest Border. The projects include construction of new facilities, possibly requiring the acquisition of land, and renovations and modifications to existing facilities. This is a $302 million GSA funded project of which about half has already been spent. This year, the Budget requests $10.2 million for border stations in Calexico, CA and El Paso, TX.

DOD INTELLIGENCE FLOW TO CUSTOMS

Congressman Lowery: What flow of intelligence exists from DOD to Customs? Is it timely?

Commissioner Hallett: DOD intelligence reporting on drug trafficking and related matters has significantly improved in both quality and quantity in recent years. The Customs Service currently receives intelligence reporting from DOD through regular electronic and hardcopy product distribution. In addition to the routine reporting channels, DOD is passing time sensitive intelligence information via the recently established Joint Task Forces (JTF-4/5/6) and NORAD. Special mention should be made of the excellent support provided to Customs by the National Security Agency (NSA) in establishing the National Technical Reporting System (NTRS) in support of law enforcement intelligence reporting requirements.

DOD ROLE IN DRUG WAR

Congressman Lowery: Is there an informal exchange mechanism between DOD intelligence analysts and Customs counterparts?

Commissioner Hallett: Several exchange mechanisms between DOD intelligence analysts and Customs counterparts have been pursued. Customs analysts have been exchanged with analysts from the Counter Narcotics Intelligence Facility (CNIF) at the National Military Intelligence Center. The Customs Intelligence Operations Center routinely coordinates with the CNIF on tactical intelligence matters of interest to JTF-4/6 and the joint U.S. Customs and Coast Guard, C3I Centers in Miami, FL and Riverside, CA. The Customs Operations Center also works with the Defense Intelligence Agency in timely processing of tactical narcotics and other intelligence of interest to U.S. Customs. The Customs Service, Office of Intelligence is negotiating with the Department of the Army, Training and Exercise Division (J2), Ft. McPherson, Georgia, to begin 60-90 day TDY training assignments in counternarcotics for NCO's at the Customs Headquarters, Intelligence Operations Center. Another initiative is being pursued to assign Department of Defense military intelligence personnel to work in Customs regional and headquarters intelligence offices to help DOD gain and develop experience for DOD's counternarcotics mission and provide liaison interface with DOD elements.

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CONFLICT RESOLUTION

Congressman Lowery: Should there be a dispute between DOD and Customs on the details of support or an operation who would resolve the dispute?

Commissioner Hallett: The Border Interdiction Committee (BIC), a subcommittee of the Office of National Drug Control Policy's Supply Reduction Working Group, will continue to play an important role in the coordination of interdiction policy. Under its new charter, a designee of the Department of Defense will be selected as co-vice chairmen, along with the Coast Guard. Any disputes will be resolved through BIC. I will personally handle policy problems which can not be resolved at the working level, in consultation with the appropriate DOD management.

VIRGINIA STREET COMMERCIAL FACILITY

Congressman Lowery: When will commercial operations at Virginia Street moved to Otay Mesa? Will Virginia Street become a pedestrian crossing?

Commissioner Hallett: The Virginia Street Customs facility is currently limited to southbound transactions (U.S. exports). The movement of commercial operations from Virginia Street to Otay Mesa is completely dependent upon the Otay Mesa Commercial facility expansion. The Mexican government has agreed to close their Chaparal Street cargo operations (their facility opposing our Virginia Street facility) when the new Otay Mesa commercial facility had been completed. The current Otay Mesa facility, particularly on the Mexican side, is not equipped to accommodate the high volume of southbound truck traffic. Tentative designs for the new Otay facility have been completed, but it is too soon to project an exact opening date. It is also important to note that Mexico will require significant roadwork to connect their facility to transportation routes that can accommodate the projected volume of truck traffic.

Although there have been many proposals for the use of the Virginia Street crossing, no final agreements have been reached.

MOBILE X-RAY VANS

Congressman Lowery: In Fiscal 1988, Congress asked the Customs Service to deploy its new Mobile X-ray system along the Southwest border in addition to the original airport locations.

- What is the status of the program and when can we expect to see the vans at the border?

Commissioner Hallett: Customs has already deployed mobile X-ray vans at three border locations: San Diego, Nogales and El Paso.

The San Diego unit is used primarily at the cargo processing checkpoint at Otay Mesa. It was delivered in San Diego on April 10, 1989.

The Nogales unit is used both on the border at Nogales and the airport in Tucson. It was delivered on April 17, 1989.

To date, the system in Nogales has been used primarily to screen cargo arriving from Mexico in the Nogales West cargo facility.

The El Paso system is used in the cargo facility to screen inbound cargo. It was delivered on May 8, 1989.

At the border locations we have used the system to conduct outbound inspections for weapons, currency and other contraband being exported contrary to law in addition to the inbound examinations we normally conduct.

CARGOSCAN X-RAY

Representative Lowery: Is Customs evaluating the large scale CARGOSCAN X-ray technology? Is there a test program planned? What has Customs done toward implementing this technology?

Commissioner Hallett: The U.S. Customs Service successfully uses x-ray technology, which offers a non-intrusive, non-destructive examination process, for detecting contraband within commercial cargo. The present x-ray systems are relatively small, most are housed in mini-vans to allow mobility, and consist of the most up-to-date image enhancement technology.

Although it is apparent that advances in this type of technology are being made, the natural progression beyond the present systems would seem to be development of an x-ray inspection system that could effectively handle intermediate cargo (possible full pallet sized loads measuring up to 4'x 4'x 8'). If such a system proves successful, expansion into a large scale system, as proposed in CARGOSCAN, would be the next step in the x-ray inspection progression.

CARGOSCAN and other similar large scale systems have not proven to be capable of imaging drugs concealed in cargo of similar or greater density. Demonstrations attended by numerous Customs personnel have yielded unreliable results including false positive findings. Accordingly, these systems do not adequately meet the needs of the importers nor Customs drug interdiction efforts.

The concept of using a container x-ray system is sound, but the available large scale systems need to be technically refined and their cost effectiveness explored. Estimates for a CARGOSCAN facility are in the range of $20 million per unit.

As part of the drug interdiction effort, the Customs Service, along with other Federal law enforcement agencies, is actively seeking innovative approaches involving new technology for detecting the presence of narcotics in containers.

REQUEST FOR CUSTOMS PRESENCE ON CATALINA ISLAND

Congressman Lowery: My office has received several requests for the Customs Service to provide a limited presence on Catalina Island, California to allow cruise ships coming from Mexico to dock there. This would facilitate the growth of the cruise industry by creating a San Diego-Ensenada-Los Angeles-Catalina-San Diego-itinerary. The Customs presence on Catalina could be limited to "a bottom of the gangway" inspection presence. Please advise the Committee and my office of the potential for a Customs presence on Catalina Island.

Commissioner Hallett: In an effort to promote the growth of the cruise industry in Southern California, Customs along with the other agencies which make up the Federal Inspection Services provide efficient clearance and inspection services at both Los Angeles and San Diego. This same degree of service could not be provided at the docks on Catalina Island, which is not a port of entry and not staffed by Customs. Other factors which impact the inspectional process are the insufficient inspectional facilities and the high-risk potential for the introduction of contraband.

WOMEN IN THE FEDERAL WORK FORCE

Congressman Wolf: What is the Customs Service doing to be flexible to the family needs of workers? For instance, have you established a job-sharing program, do you allow work-at-home or flexiplace arrangements?

Commissioner Hallett: We are extremely concerned about the family needs of our employees in the Customs Service, although the nature of the Customs mission requires that many employees make sacrifices by working long and difficult hours. As you make know, neither our drug enforcement mission nor out trade and passenger processing responsibilities fit neatly into a nine-to-five framework. Consequently, we are devoting a great deal of attention to quality employment programs such as Flexiplace and job sharing.

We believe that Flexiplace (or work-at-home) arrangements show great promise for adaptation to Customs occupations, particularly in the information management and commercial processing areas. We have already begun work on three local tests of Flexiplace, adopting many of the Flexiplace Guidelines just issued by the President's Council on Management Improvement. We are looking forward to seeing the results of those tests and anticipate that Customs employees will be able to benefit significantly from the new flexibility provided by work-at-home arrangements.

Customs has also supported the appropriate use of part-time employment for many years. Job sharing is one form of part-time employment which is now receiving increased attention throughout the Federal Service. As you know, the Customs Service must make extensive use of all forms of part-time, as well as intermittent, employment arrangements to handle the many special requirements of passenger and cargo processing. Our Part-Time Employment Program is critical to the performance of our mission. In effect, Customs field managers must look at each case individually and determine which arrangement would be of greatest benefit to both the employees involved and the needs of the Service. We are also about the begin renegotiation of our National Agreement with the Union, and job sharing is one of a number of important issues listed for negotiation.

SOUTHERN BORDER CAPITAL IMPROVEMENT PROGRAM

Location	Project	Project Cost	FY1988 Funding	FY1989 Funding	FY1990 Funding	FY1991 Budget	Unfunded
TEXAS							
Brownsville							
-New Bridge	Proposed New Border Station	$12,803,000		$488,000			$11,330,000
-Gateway Bridge	Security Improvements	$250,000	$32,000	$218,000			
-Gateway Bridge	Lane Expansion	$1,450,000	$196,135	$1,253,235			
-Gateway Bridge	Admin Bldg Upgrade	$8,000,135	$1,200,000	$7,796,135			
-B&M Bridge	Replace Border Station	$5,567,500	$1,173,000	$4,394,500			
Los Indios	Construct New Border Station	$8,280,700	$587,900	$195,700	$1,535,000		$6,033,000
Progreso	Security Improvements/R&A	$900,400	$250,000	$545,400			
Los Ebanos	Replace Building	$250,000	$150,000	$100,000			
Hidalgo	Safety and Efficiency Improvements	$1,298,718	$298,519	$1,119,299			
Rio Grande City	Major Renovation/Expansion	$90,000	$90,000				
Roma	Safety Improvements/Dock Extension	$850,000	$850,000				
Falcon Dam	R&A/Building Expansion	$710,400	$400,000	$310,400			
Laredo							
-Lincoln/Juarez	Construct New Import Lot	$20,569,800	$5,748,800	($3,473,400)			$17,296,000
-Convent Street	Major Building Modernization	$3,301,119	$301,719	$2,999,400			
-Railroad Bridge	New Inspection Facility	$18,000	$18,000				
-New Bridge	Proposed New Border Station	$12,800,000		$1,999,000	$4,808,000		$7,008,000
Eagle Pass	Security Improvements/R&A	$5,829,908	$490,000	$4,947,900	$1,402,000		
Del Rio	Expansion of Inspection Lanes	$2,319,700	$445,000	$1,874,700			
	Security Improvements	$250,000	$250,000				
	Station Expansion	$11,193,000	$3,465,000	($1,220,800)			$8,948,000
Amistad Dam	Building Repairs and Alterations	$150,409		$150,409			
	Laredo District Totals	$98,929,465	$16,897,255	$23,395,180	$8,937,000		$50,799,000
Marathon	Project Cancelled						
Presidio	Security Improvements	$300,000	$300,000				
Ft. Hancock	Security Improvements	$100,000	$100,000				
Fabens	Security/Site Acquisition	$644,800	$180,000	$464,800			

Location	Project	Project Cost	FY1998 Funding	FY1999 Funding	FY1999 Funding	FY1981 Budget	Unfunded
El Paso							
-BOTA	Bldg Upgrade/Expand Import Lot	$9,358,500	$442,700	$700,300	$7,208,900		
	Phase II Paving at Import Lot	$850,000	$950,000				
-PDN	Major Building Renovation	$4,990,400	$2,850,000	$1,180,400			
-Tolote	Replace Border Station	$17,695,328	$7,651,328			$9,044,000	
NEW MEXICO							
Columbus	Security Improvements/INSA	$291,900	$200,000	$1,000			
Santa Teresa	New Border Station	$6,730,000	$378,000	$200,000	$6,152,000		
Antelope Wells	Security/INSA/ Housing	$358,000	$298,000	$51,000			
	El Paso District Totals	$33,122,020	$9,170,020	$2,547,500	$13,360,900	$9,044,000	
	GSA Region 7 Totals	$129,951,475	$23,857,875	$25,943,606	$29,297,900	$9,044,000	$30,708,606
ARIZONA							
Douglas	New Facilities	$6,172,000		$172,000	$6,000,000		
	Building Repairs and Alterations	$6,101,700	$220,000	$823,700			
	Safety Improvements	$110,000	$110,000				$3,407,000
Naco	New Facility	$3,040,500		$143,500			
	Building Repairs and Alterations	$220,000	$210,000	$10,000			
	Safety Improvements	$32,000	$32,000				
Nogales							
-Grand Ave	Building Repairs and Alterations	$13,781,000		$1,354,000	$12,427,000		
	Safety Improvements	$182,000	$182,000				
	Renovate/Expand Existing Station	$2,866,210	$430,310	$2,435,900			
-Mariposa	Building Repairs and Alterations	$5,412,630	$350,330	$774,300	$4,288,000		
	Safety Improvements	$143,000	$40,500	$102,500			
Bisbee	New Facilities/Employee Housing	$3,334,100		$149,100			$3,185,000
	Building Repairs and Alterations	$81,000		$81,000			
	Safety Improvements	$34,000		$34,000			
Tubaville	Building Repairs and Alterations	$573,100	$140,000	$433,100			
	Safety Improvements	$65,000	$65,000				

Location	Project	Project Cost	FY1988 Funding	FY1989 Funding	FY1990 Funding	FY1991 Budget	Unfunded
San Luis	Building Repairs and Alterations	$1,404,000	$117,000	$1,287,300			
	Safety Improvements	$66,100	$66,100				
	Region District Totals	$37,234,300	$1,906,700	7,577,000	$20,715,000		$8,582,500
CALIFORNIA							
Alameda	R&A/Safety Improvements	$484,018	$243,000	$241,018			
	Replace Border Station	$6,613,036		$212,352			$6,400,884
Calexico	Construct New Border Station	$43,875,000	$800,000	$1,800,000		$1,174,000	$40,221,000
	Safety /Asbestos Abatement	$8,486,220	$666,000	$4,820,000	$4,000,220		
	Building Repairs and Alterations	$620,790	$620,790				
San Ysidro/Otay Mesa	Repairs & Alterations at Virginia St	$882,083	$76,000	$367,000			$140,083
	Safety/Asbestos Abatement	$8,200,253	$3,200,253	$2,872,000	$2,200,000		
	Building Repairs and Alterations .	$22,466,000	$1,172,000				$21,382,820
	Construct Outdoor Firearms Range	Cancelled	$260,000	($260,000)			
	Reconfigure Secondary Lot	$96,820	$96,820				
	Signage and Security Improvements	$2,470,217	$617,000				$1,001,217
	New Commercial Facility	$23,256,611	$6,000,000	$721,700	$2,000,000		$14,112,711
	Improve Existing Commercial Lot	$5,300,000	$400,000	$3,600,000	$4,302,000		($3,040,300)
Tecate	New Inspection Facilities	$17,245,417	$130,000	$2,200,000			$8,000,462
	Building Repairs and Alterations	$912,867	$756,272	$156,205			
	San Diego District Totals	$130,582,234	$14,811,085	$16,116,000	$13,600,220	$1,174,000	$80,782,649
	GSA Region 9 Totals	$172,828,474	$16,810,200	$22,902,000	$34,304,220	$1,174,000	$96,466,149
	Southwest Region	$144,218,142	$27,600,200	$27,661,200	$18,670,400		$72,541,240
	Pacific Region	$135,582,234	$14,811,085	$16,116,000	$13,600,220	$1,174,000	$80,782,649
	Total Program	$362,777,040	$49,670,000	$66,908,400	$54,881,220	$10,218,000	$147,394,14

COCOM CHANGES

Congressman Wolf: It is my understanding that the Administration is considering reducing the number of items that are restricted under the Export Administration Act. General Scowcroft has said that given the changes in Eastern Europe, the number of items on the COCOM (coordinating committee on multilateral export controls) list could be reduced from more than a thousand to only a few hundred.

How would this affect the Customs Service? Would this free up some of your resources for other needs?

Commissioner Hallett: When analyzing the overall impact of the recent changes in Eastern Europe upon the United States Customs export enforcement program, it must be viewed from the perspective that Operation EXODUS is responsible for all export enforcement, not just dual use technologies which are the focus of the Eastern European changes. This includes items on the United States Munitions List, Missile Technology, Foreign Assets Control, CHEMCON II (drug manufacturing precursors), stolen vehicles under the Motor Vehicle Theft Law Enforcement Act of 1984, chemicals used in the manufacture of chemical and biological weapons and, material for nuclear weapons and research. Lately there has been special increased emphasis directed towards the non-proliferation of nuclear weapons and missile technology and the possible illegal export of materials and equipment associated with these areas.

Based upon the Strategic Investigations Division case tracking system, only 13.5% of all export investigations and, 6.5% of all seizures for export violations involve the Soviet Union or Soviet Bloc countries. While the relaxation of export controls to Eastern Europe of some dual use commodities may slightly reduce the number of investigations, the overall impact to the EXODUS program will be negligible, negating any possible perceived need to realign Customs resources. With the special emphasis on nuclear and missile technology there will be increased demands upon the U.S. Customs Service within the next decade. Less industrialized nations and terrorist groups will continue to attempt to increase their status among the world powers by acquiring this "way of the future" technology. Even as export controls are relaxed on some of the dual use commodities, new technologies on the leading edge of industry will continue to be developed. The United States Customs Service will then be able to concentrate our efforts on building "higher fences" around the more significant technology.

ANTICIPATED INCREASED NEED FOR CUSTOMS SUPPORT AT AIRPORTS

Congressman Wolf: There has been a large increase in the number of flights at Dulles International Airport, and I want to commend you on your willingness, and on the willingness of the Washington District Director, to meet with the people out at Dulles. But one of the problems that seems to arise is that the Customs Service is better at responding to an increase in flights that has already happened, rather than be able to anticipate additional flights and move adequate Customs support in just as the new flights begin. What are you doing to avoid any lag time between new flights and adequate Customs support? For instance, there may be an additional 50 to 60 flights per week coming into Dulles by this fall.

Commissioner Hallett: Customs Headquarters is monitoring various sources of air commerce information for indications of possible new international routes and passing this information on to the Regional Offices affected. In addition, the Department of Transportation is requiring the airlines, airport authorities and cities, requesting new international service under the DOT new rule, to forward copies of their applications to the Federal Inspection Services (FIS) agencies. For those airports without FIS facilities, all parties concerned are expected by DOT to meet and coordinate the development, construction and operation of the facility.

In response to the concern raised about Dulles Airport, the District Director has already implemented new shift schedules to accommodate current peaks. With the opening of the new FIS facility, the agencies will implement the Master Plan for Air Passenger Processing for 1990 which will include the Interagency Border Inspection System (IBIS). In addition to the Master Plan and IBIS, Memorandums of Understanding recently signed by Customs and Agriculture and soon to be signed by Customs and INS, will provide a greater cooperative effort to process arriving international passengers more timely.

INTERNATIONAL COMPETITIVENESS

Congressman Wolf: I am concerned about America's persistent trade deficit, and I would like to know, briefly, whether the Customs Service has been involved in making exporting easier for American businessmen?

Commissioner Hallett: As you are aware, the Customs Service is responsible for the enforcement of other government agency laws and regulations regarding exports, with the major emphasis on critical technology and munitions shipments. We are very sensitive to the requirements and problems of exporters and the transportation community, and we regularly participate in trade meetings and conferences in an effort to resolve the problems.

CUTS IN TACTICAL INTERDICTION AND COMMERCIAL OPERATIONS

Congressman Hoyer: I am glad that you have provided for an increase in inspectors and control staff in your budget request. However, I am deeply concerned that the cuts that have been proposed in Tactical Interdiction and Commercial Operations are contradictory with goals the Congress has pursued in the war on drugs and improving performance in international trade.

Commissioner Hallett: The proposed cuts were necessary to absorb increased costs for health benefits and the pay raise. In addition, Congress has recently enacted legislation that raised Administratively Uncontrollable Overtime (AUO) earned by Customs enforcement personnel. However, at this time, the drug-related unfunded portion of these increased AUO and other costs, for a total of $19 million and 314 FTE, will be reimbursed to Customs from the Drug Czar's Special Forfeiture Fund. Therefore, the remaining reductions only apply to the non-drug enforcement unfunded portion of these increases.

The proposed increase in inspection staffing is primarily directed towards improving enforcement and facilitation along the Southwest border, a major entry-point for narcotics and dangerous drugs.

STAFFING LEVELS

Congressman Hoyer: How many fewer missions will occur as a result of cuts of 126 positions in Tactical Interdiction? Where specifically will these positions be reduced?

Commissioner Hallet: Customs is currently planning to absorb these reductions through attrition. In this way Customs can assure its personnel that no one will lose his or her job, and that no one will suffer. However, because attrition occurs randomly it is difficult for Customs to predict in which specific tactical interdiction program, and in which locations, these cuts will occur. Therefore cuts may occur in either or both the marine and air interdiction programs.

At the same time as these employment reductions are taking place, improvements in the Customs Service C3I program, MJICC, and other enforcement systems are being made. Enhanced communications and interagency communications are being implemented every day. These improvements will result in more effective targeting. Customs expects that improved targeting and sorting will result in fewer unsuccessful missions being flown, and fewer unsuccessful marine sorties taken. The final result will be that this reduction will have a minimal impact on both programs.

Congressman Hoyer: How many fewer investigations will occur with the cut of 71 positions in Investigations?

Commissioner Hallett: Here too, Customs is constantly attempting to upgrade its investigative targeting capability. Customs Investigators now have the benefit of targets selected through artificial intelligence, screened by trained intelligence analysts, and supported by an infrastructure of computer lookout systems and interagency task forces. Although fewer investigations will take place, resources will automatically be shifted to cases that have been determined to have a higher payoff, and a higher probability of success.

STAFFING LEVELS

Congressman Hoyer: Will timeliness of clearance of goods or filing of papers or any other measurable standard be reduced as a result of the 279 positions proposed for elimination in commercial operations? At what ports will these reductions occur?

Commissioner Hallett: It is our expectation that there will not be any noticeable, negative impact on the processing of goods or documents as a result of these staffing cuts. Expansion of paperless processing, greater participation in the Automated Commercial System by the trade community, and increased reliance on selectivity in our activities will allow Customs to keep up with the workload through the end of FY 91.

The proposed reductions will be taken through attrition throughout the Customs Service. We cannot, therefore, identify the reductions to be experienced at any particular port.

DRUG INTERDICTION: FY 89

Congressman Hoyer: Last year, I requested for the record a summary of all seizures by each effort of Customs, and the data was very interesting. Could you please provide the same data in the same format for FY 89?

Commissioner Hallett: The equivalent data summaries for fiscal year 1989 are provided in the following tabulations.

Standard data on cargo enforcement plus air and marine interdiction seizures are again shown separately; these are NOT distinct from seizures shown by conveyance type, and may not be added to the former because the categories are not exclusive (i.e., multiple counting would occur).

U.S. CUSTOMS DRUG INTERDICTION SEIZURES

HEROIN

	FY 89
TOTAL (pounds):	1,055.5
CONVEYANCE CATEGORY:	
Commercial Air quantity (pounds)	773.9
Non-Commercial Air quantity (pounds)	*
Commercial Vessel 1) quantity (pounds)	50.2
Non-Commercial Vessel quantity (pounds)	0.0
Commercial Land 2) quantity (pounds)	2.7
Non-Commercial Land 3) quantity (pounds)	60.7
Mail quantity (pounds)	133.0
Other Conveyance 4) quantity (pounds)	18.4
No importing conveyance 5) quantity (pounds)	16.7

NOTES:

An asterisk (*) indicates less than 1/10th pound.

1) In FY 89, commercial vessels include fishing boats, trawlers, and other work boats as well as cargo vessels and passenger liners.

2) Includes buses, trains, and trucks

3) Includes all other land vehicles, i.e., autos, vans, and motorcycles, as well as pedestrians.

4) 'Other' covers any type of conveyance not specified above, such as pack mules and other occasional vehicles, abandoned or floating contraband, and may include seizures from buildings.

5) Since April, 1989, the category "no importing conveyance" has been available for recording seizures made from domestic locations after contraband has crossed the border. Supersedes use of "other" in such instances.

U.S. CUSTOMS DRUG INTERDICTION SEIZURES

OPIUM

	FY 89
TOTAL (pounds):	901.3
CONVEYANCE CATEGORY:	
Commercial Air quantity (pounds)	12.6
Non-Commercial Air quantity (pounds)	0.0
Commercial Vessel 1) quantity (pounds)	0.0
Non-Commercial Vessel quantity (pounds)	0.0
Commercial Land 2) quantity (pounds)	0.0
Non-Commercial Land 3) quantity (pounds)	1.2
Mail quantity (pounds)	887.1
Other Conveyance 4) quantity (pounds)	0.2
No Importing Conveyance 5) quantity (pounds)	0.2

NOTES:

1) In FY 89, commercial vessels include fishing boats, trawlers, and other work boats as well as cargo vessels and passenger liners.

2) Includes buses, trains, and trucks

3) Includes all other land vehicles, i.e., autos, vans, and motorcycles, as well as pedestrians.

4) 'Other' covers any type of conveyance not specified above, such as pack mules and other occasional vehicles, abandoned or floating contraband, and may include seizures from buildings.

5) Since April, 1989, the category "no importing conveyance" has been available for recording seizures made from domestic locations after contraband has crosed the border. Supersedes use of "other" in such instances.

U.S. CUSTOMS DRUG INTERDICTION SEIZURES

COCAINE

	FY 89
TOTAL (pounds):	128,264.0
CONVEYANCE CATEGORY:	
Commercial Air quantity (pounds)	15,168.8
Non-Commercial Air quantity (pounds)	24,629.9
Commercial Vessel 1) quantity (pounds)	29,143.5
Non-Commercial Vessel quantity (pounds)	10,981.8
Commercial Land 2) quantity (pounds)	659.2
Non-Commercial Land 3) quantity (pounds)	21,947.5
Mail quantity (pounds)	63.5
Other Conveyance 4) quantity (pounds)	18,995.9
No Importing Conveyance 5) quantity (pounds)	4,092.3
Unspecified Conveyance 6) quantity (pounds)	2,580.4

NOTES:

1) In FY 89, commercial vessels include fishing boats, trawlers, and other work boats as well as cargo vessels and passenger liners.

2) Includes buses, trains, and trucks

3) Includes all other land vehicles, i.e., autos, vans, and motorcycles, as well as pedestrians.

4) 'Other' covers any type of conveyance not specified above, such as pack mules and other occasional vehicles, abandoned or floating contraband, and may include seizures from buildings.

5) Since April, 1989, the category "no importing conveyance" has been available for recording seizures made from domestic locations after contraband has

crossed the border. Supersedes use of "other" or non-specification in such instances.

6) Unspecified conveyance was previously used to cover situations now coded as 'no conveyance.'

U.S. CUSTOMS DRUG INTERDICTION SEIZURES

MARIJUANA

	FY 89
TOTAL (pounds):	642,440.1
CONVEYANCE CATEGORY:	
Commercial Air quantity (pounds)	17,675.1
Non-Commercial Air quantity (pounds)	15,953.6
Commercial Vessel 1) quantity (pounds)	224,982.0
Non-Commercial Vessel quantity (pounds)	98,385.2
Commercial Land 2) quantity (pounds)	4,628.1
Non-Commercial Land 3) quantity (pounds)	178,323.2
Mail quantity (pounds)	1,345.1
Other Conveyance 4) quantity (pounds)	85,471.3
No Importing Conveyance 5) quantity (pounds)	13,177.1
Unspecified Conveyance 6) quantity (pounds)	2,499.6

NOTES:

1) In FY 89, commercial vessels include fishing boats, trawlers, and other work boats as well as cargo vessels and passenger liners.

2) Includes buses, trains, and trucks

3) Includes all other land vehicles, i.e., autos, vans, and motorcycles, as well as pedestrians.

4) 'Other' covers any type of conveyance not specified above, such as pack mules and other occasional vehicles, abandoned or floating contraband, and may include seizures from buildings.

5) Since April, 1989, the category "no importing conveyance" has been available for recording seizures made from domestic locations after contraband has

crossed the border. Supersedes use of "other" or non-specification in such instances.

6) Unspecified conveyance was previously used to cover situations now coded as 'no conveyance.'

U.S. CUSTOMS DRUG INTERDICTION SEIZURES

HASHISH

	FY 89
TOTAL (pounds):	51,017.8
CONVEYANCE CATEGORY:	
Commercial Air quantity (pounds)	110.8
Non-Commercial Air quantity (pounds)	47.0
Commercial Vessel 1) quantity (pounds)	450.7
Non-Commercial Vessel quantity (pounds)	50,338.9
Commercial Land 2) quantity (pounds)	0.1
Non-Commercial Land 3) quantity (pounds)	3.1
Mail quantity (pounds)	10.4
Other Conveyance 4) quantity (pounds)	55.7
No Importing Conveyance 5) quantity (pounds)	0.9
Unspecified Conveyance 6) quantity (pounds)	0.1

NOTES:

1) In FY 89, commercial vessels include fishing boats, trawlers, and other work boats as well as cargo vessels and passenger liners.

2) Includes buses, trains, and trucks

3) Includes all other land vehicles, i.e., autos, vans, and motorcycles, as well as pedestrians.

4) 'Other' covers any type of conveyance not specified above, such as pack mules and other occasional vehicles, abandoned or floating contraband, and may include seizures from buildings.

5) Since April, 1989, the category "no importing conveyance" has been available for recording seizures made from domestic locations after contraband has

crossed the border. —Supersedes use of "other" or non-specification in such instances.

6) Unspecified conveyance was previously used to cover situations now coded as 'no conveyance.'

U. S. CUSTOMS DRUG INTERDICTION SEIZURES
CARGO ENFORCEMENT, AIR AND MARINE INTERDICTION

The following specialized data are presented to supplement seizures by conveyance type. The seizures represented here are already accounted for in the breakout of conveyance, hence should not be added to the conveyance data.

	FY 1989
Air Interdiction	
Cocaine (lbs.)	71,764
- due to aerostat	1,852
Marijuana (lbs.)	121,508
- due to aerostat	2,000
Marine Interdiction	
Heroin (lbs.)	97
Cocaine (lbs.)	60,044
Marijuana (lbs.)	223,621
Hashish (lbs.)	50,471
Cargo Enforcement Teams	
Heroin (lbs.)	468
Cocaine (lbs.)	30,342
Marijuana (lbs.)	63,593
Hashish (lbs.)	454
Opium (lbs.)	6.7

DRUG SEIZURES IN BALTIMORE

Congressman Hoyer: I was also concerned by data supplied for the record last year which showed a major increase in cocaine seizures in Baltimore during FY 88. Could you please provide the data in the same format for seizures for FY 89 in Baltimore so I can determine if FY 88 was an exception or if there is indeed a worsening trend.

Commissioner Hallett: The amounts of principal drugs seized by Customs at Baltimore declined from FY 88 to FY 89. For your convenience, data for both years are shown below.

	FY 88	FY 89
BALTIMORE		
Heroin		
seizures	3	1
pounds	10.1	1.1
Cocaine		
seizures	5	6
pounds	48.1	0.7
Hashish		
seizures	5	11
pounds	1.2	4.7
Marijuana		
seizures	33	44
pounds	19,261.3	36.4
Opium		
seizures	0	0
Morphine		
seizures	0	0
Other Drugs		
seizures	10	5
tablets	449	509

SEIZED PROPERTY PROGRAM

Congressman Hoyer: Does Northop handle disposition of Customs seized/forfeited property and general order merchandise?

Commissioner Hallett: Yes. In 1985 Northop was awarded a contract for the servicewide custody, management and disposition of seized property. In 1987 Northrop was awarded a separate contract for the sale of general order (G.O.) merchandise.

It is important to note that Customs, not the contractor, renders all seized property disposition instructions. Property in the contractor's custody can receive one of the following dispositions: remit (return to the owner/violator), destroy, sell at public auction, retain by Customs for official use, transfer to a Federal agency, share with (i.e. transfer to) a state or local law enforcement agency that participated in the seizure, or, some type of seizures may be donated to a charitable institution. The contractor complies with Customs' disposition instructions and then provides verification that final disposition was completed.

Likewise, for G.O. merchandise, only Customs renders disposition instructions. However, for G.O. merchandise, disposition is limited to sale at public auction or destruction.

SEIZED PROPERTY PROGRAM

Congressman Hoyer: How was Northrop selected for the seized property contract? How do they charge people? Is there a charge for getting on a mailing list for disposal of property? Can anyone apply and bid on property? What is the payment to Northrop for providing the service?

Commissioner Hallett: Northrop was selected for both the seized property contract and the G.O. sale contract via the open, competitive, Federal procurement process.

Property is sold at public auction to the highest bidder. Major credit cards, money orders, cashiers checks, and cash are acceptable forms of payment.

Recipients must pay for the contractor's holding costs for property that is remitted. Holding costs include 1) all direct costs for the receipt, transportation, storage, and maintenance of the property, plus 2) an equitable amount of the contractor indirect costs (overhead). The contractor's indirect costs are identified as Contractor Cost Allocation (CCA). Cashiers checks, money orders, and cash are acceptable forms of payment for contractor holding costs.

The cost of an annual subscription for sales information for all Northrop sales is $50.00. Subscriptions for sales information for all sales west of the Mississippi river is $25, and $25 for all sales east of the Mississippi. Subscription revenue pays for the costs of printing and mailing, it does not generate a profit for the Government. Information on upcoming sales is also available to the public free of charge by contacting the contractor's central office in Lawton, Oklahoma or calling (405) 357-9194.

Anyone, except Customs employees, contractor employees, subcontractor employees, and their immediate families, can bid on property offered at public auction.

Customs elected to use a cost-plus award-fee type of Federal contract for both the seized property and the G.O. sale contracts. Using this type of Federal contract, Customs pays: 1) all allowable contractor costs; plus 2) a base fee (profit) that represents 2% of the negotiated costs; plus 3) an award fee (profit) that can represent up to 8% of the negotiated costs. The award fee is based on Customs evaluation of contractor performance. The base fee and the award fee are structured on the negotiated costs that are established prior to contract award at the beginning of each option year.

MINORITIES IN THE WORKFORCE

Congressman Hoyer: There have been allegations and now a law suit alleging that Customs removed almost all Hispanics from key management posts and barred others from entering the Executive Service. These are serious charges. How may Hispanics are now in senior management ranks? How many women, blacks and other minorities? What is the percentage of the agency's workforce for each minority category?

Commissioner Hallett: There is currently a class action complaint pending in the courts filed by an employee in our North Central Region alleging discrimination on the basis of National Origin - Hispanic. The complaint is awaiting a hearing date and certification as a valid class complaint. No further comments can be made on this issue until the appropriate action is taken by the courts.

The U.S. Customs Service has a total of fifty three (53) Senior Executive Service employees. At the present there is a conspicuous absence of Hispanics and blacks among these ranks, however, 1.9 percent (1) of this population is Asian, and 3.8 percent (2) is American Indian. Males represent 92.5 percent (49) of the Senior Executive Service, and females represent 7.5 percent (4).

While there is insufficient minority representation at this time, the opportunity to increase minority representation exists. The U.S. Customs Service has a total of 279 key managerial positions. Key managerial positions are defined as all positions at the GS/GM-15 level, all positions of District or Area Director, all positions of Assistant Regional Commissioner, and all positions of Regional Director, Internal Affairs, regardless of grade. Individuals who occupy these positions are a critical link in carrying out the goals and directives of senior executives, and at the same time, constitute a primary recruitment source in filling positions in the Customs Senior Executive Service. At present, 270 of the key managerial positions are at the GS/GM-15 or equivalent pay level. Blacks comprise 2.6 percent (7), Hispanics comprise 2.2 percent (6), Asians comprise 0.4 percent (1), and women comprise 14.4 percent (39) of these positions at the GS/GM-15 pay level.

Of employees in key managerial positions at the grade 14 pay level, there are eight (8) individuals, all of whom are white. Seven or 85.6 percent of this workforce is male, and 1 or 12.5 percent is female.

Of employees in key managerial positions at the grade 13 pay level, there is one (100.0 percent) white male.

In summary, the U.S. Customs Service has a combined total of three hundred thirty-two (332) Senior Executive and key managerial positions. Whites comprise 315 (94.9 percent), blacks comprise 7 (2.1 percent), Hispanics comprise 6 (1.8 percent), Asians 2 (0.6 percent), and American Indians comprise 2 (0.6 percent). Of this total, 288 (88.7 percent) are male, and 44 (13.3 percent) are female.

As of January 1, 1990, Customs workforce totaled 15,382 permanent full-time employees (5,012 or 33 percent women and 10,370 or 67 percent men). Of that total, blacks make up 11.6 percent or 1786, Hispanics make up 11.8 percent or 1808, Asians account for 3 percent or 413, and Native Americans account for 0.5 percent or 74. In summary, the U.S. Customs Service has a total of 4,081 or 26.5 percent minority employees.

PARTICIPATION OF MINORITIES IN MONITORING CASES

Congressman Hoyer: What is the percentage breakout of minorities in wiretap monitoring cases? What percentage have these cases returned to them for final action? I am concerned that minorities are given the "grunt" tasks, but not allowed to advance or complete cases to improve their records.

Commissioner Hallett: Since the start of Fiscal Year 1990 on October 1, 1989, the U.S. Customs Service has conducted nineteen (19) authorized "wiretaps." In more than half of these cases, the subjects being monitored conducted their conversations in a language other than English. In order to understand these conversations, it is necessary to have officers involved in the "wiretap" who are fluent in the language(s) being spoken. More often than not, this means that some of the officers assigned to the "wiretap" are minorities because they possess the foreign language proficiency needed to conduct the "wiretap." Assignments to participate in "wiretaps" are normally spread among all officers assigned to the office conducting the "wiretap." In some instances, we find it necessary to temporarily assign officers from other locations to augment the staff of the office conducting the "wiretap." This augmentation normally is limited to officers who are fluent in the language(s) being used by the subject being monitored. We do not keep records in regard to how many minority officers participate in "wiretaps." It would be an extremely expensive, time consuming and arduous task to collect that information. In addition, that information in the wrong hands could create a security problem for us.

In regard to the questions of "wiretap" cases being returned to minority officers for final action, our practice is that the officer/group/office that initiates a case retains responsibility to manage the case from its inception to its fruition. Cases are not assigned based on participation or non-participation in a "wiretap". Officers assigned to "wiretaps" participate in the case until the "wiretap" is completed. If they were the "case agent" or were assigned to the group or office that initiated the case, they would continue to participate in the case development. If they were not involved in the case prior to the "wiretap" their involvement in the case ceases when the "wiretap" is terminated.

It is not our policy that "...minorities be given the "grunt" tasks but not allowed to advance or complete cases to improve their records." Rather, we attempt to give all officers the opportunity to participate in cases to the fullest extent of their abilities and the Service's needs. Any officer that possesses a skill that will enhance the effectiveness of an investigation is fully utilized in conjunction with that case. This practice applies to all officers, not just minorities.

WORLD NARCOTICS OUTPUT

Mr. Hoyer: The State Department has reported that cocaine and heroin production is up from last year. Heroin is up by 28 percent and cocaine is nearly twice what was produced a few years ago. What do your estimates show? Do you agree with the State Department's report?

Commissioner Hallett: The Customs Service does not dispute the statistics reported by the State Department. The Customs Service does not prepare estimates of drug production or an estimate of the drug threat because we do not have the authority for drug law enforcement activities overseas. We must rely on estimates of the Drug Enforcement Administration, Intelligence Community and the State Department.

Mr. Hoyer: This subcommittee has made major investments in this agency, increasing staffing levels from 13,860 in 1981 to 16,663 in FY 90. Your budget has gone from $488 million in 1981 to $1,065,090,000 in FY 90. The time has come to begin to look at the basic question - how can we judge success?

Commissioner Hallett: We attempt to allocate our interdiction resources according to the threat as determined by all intelligence resources available. As such, we judge its success through comparisons with seizure statistics, threat estimates, assessments of other agencies, and the current extent of the drug problem in the area. All of this information is analyzed in order to determine the success of interdiction effort. A significant indicator is whether the smugglers have been forced to shift their operations and convert to riskier and more costly modes of operation. A good example is the Southeast Border where all intelligence and statistics show that interdiction efforts of the Customs Service have met with significant success, although seizure statistics continue to rise. Intelligence indicates that smugglers are shifting to other less desirable routes and smuggling modes. Estimates show that smugglers are increasingly utilizing the Southwest Border smuggling routes through Mexico. Across the Southwest Border, however, the smugglers are generally forced to come through the ports of entry where Customs can search more efficiently and effectively. At this point, it is still premature to judge the effects of Customs increased efforts on the Southwest Border.

The issue of appropriate standards for evaluating and measuring the success of drug enforcement efforts, such as border interdiction, has been under study for some time by various agencies. Clearly, seizures alone do not fully indicate an enforcement program's measure of success, particularly when the supply can be easily expanded through the world. Another measure of success has been the price of the drugs to the user. Although this measure has indicated falling prices for cocaine, it can fluctuate depending not only on the available supply, but also because of variable demand and other factors. Our view is that

there is no single accurate standard to evaluate program accomplishments. Furthermore, there is no single program for fighting the illegal importation as the National Drug Control Strategy succinctly states: no single statistic, by itself, can accurately reflect the full complexity of our current drug epidemic. However, we do believe that certain measures taken together do provide a rough indication of successes achieved in the drug war. Selected, meaningful standards measure rates of illegal drug use, public attitudes on drug use, drug-related problems, drug-related crime, and evidence of drug availability and price.

The Customs Service believes, as does the Drug Control Strategy, that measured success can only be achieved by a fundamental principle of reducing drug use through "a mix of supply and demand policies that attack all phases of the problem." We view border interdiction as an integral and necessary part of the overall Federal supply reduction effort.

Consistent with this overall strategy, Customs has successfully pursued the drug interdiction problem through an integrated and multifaceted program that focuses on each of its significant segments. We have in-place intensive enforcement programs that attempt to stop the drugs in all of their unique modes of entry right at the border. Complementing this effort is our enforcement against the profits of drug smuggling, particularly money laundering, and recently we have implemented a strong effort to prevent the export of the chemicals required to produce the drugs. In addition, we have enlisted the support of state and local enforcement agencies as well as the National Guard. We believe that our strengthened and better coordinated law enforcement will materially assist those programs seeking to reduce drug demand.

Mr. Hoyer: What effort will be made by Customs this year that will be different from the past three years that we can expect to see measurable results from?

Commissioner Hallett: The Customs Service has historically been involved in the battle against the introduction of contraband drugs into the United States. While any number of new initiatives have been instituted over this history with varying degrees of success, one currently under development is Operation CHEMCON. In conjunction with DEA, Operation CHEMCON is dedicated to reducing the exportation of drug processing chemicals and has shown significant promise. We expect to be able to report measurable success over the short-term.

POLYGRAPH TESTS

Congressman Hoyer: I understand that you plan to have employees take polygraph tests. Have you done an analysis as to the legality and cost of this? What caused you to decide to do polygraph tests or to formally explore the matter?

Commissioner Hallett: We are presently only examining the option of using polygraph tests. Discussion of this possibility was made with regard to tightening our internal controls and ensuring the highest level of integrity among Customs employees. This issue is currently under review by Customs counsel prior to further analysis and/or implementation.

STAFFING

Congressman Hoyer: I understand that you are considering assigning all new employees to posts of duty at a minimum of 250 miles from their home. Is that correct?

Commissioner Hallett: Yes, that is one of the new ideas we are considering to strengthen our Integrity Program. In the past Customs has tended to hire employees from the same geographical area in which they will work, and that could lead to collusion with friends, relatives, and acquaintances and possible violations of law. I have asked our personnel staff to look into the feasibility of a "250 mile rule" and to report on any regulatory limitations as well as any negative repercussions this policy might have in other areas. Once we have assessed the situation, we will then consider how we might profitably use this approach in assigning new employees for specific occupations.

Congressman Hoyer: What will be the cost of this decision?

Commissioner Hallett: That is, of course, one of the key issues that we are reviewing. In general, new government employees must pay relocation costs to their first post of duty, and that could be a drawback from the recruitment standpoint. In other cases, such as hiring internally through Merit Promotion, Customs will usually have to pay relocation costs, and that is a limitation that we will carefully consider.

Congressman Hoyer: What impact, if any, will such a decision have on Customs ability to recruit new employees?

Commissioner Hallett: The recruitment impact is a serious concern which will ultimately depend on the particular occupation in question and our methods of recruitment. For example, applicants for Customs Inspector jobs must already indicate their geographic preference for the first post of duty, and in many cases we could use the 250-mile concept and still accommodate applicant preferences. On the other hand, we recognize that the negative impact of a 250-mile rule on recruitment for clerical or difficult-to-fill positions could prove decisive, and so we may have to rule out this concept for certain occupations right from the outset.

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CERTIFICATION

Congressman Roybal: I understand that you are considering allowing employees of Mexican factories and shipping depots to certify that a particular container is free of contraband and once certified that container will cross the border uninspected. Is that correct?

Will this cargo be coming through the same ports that Customs believes are currently responsible for much of the drug smuggling we have had to date?

Please give us the details of this program.

What measures, if any, are you taking with the Mexican civilian inspectors in this program to ensure that they are held to the same tests that you have proposed for employees?

Will they be subject to polygraphs?

Will they be assigned up to 250 miles from their homes to ensure integrity?

Commissioner Hallett: The program to which you refer is called the Maquiladora Sealing Program. This program allows maquiladoras (twin plants) to apply for a special program under which their plant and their shipping procedures are subjected to security checks by both U.S. and Mexican Customs. If approved, trucks leaving the plant are sealed by security personnel of the plant and given unimpeded and expedidted clearance through Mexican export control. When they arrive at the U.S. side of the the border they are accorded clearance through our Line Release System.

Line Release is a system of cargo release through the use of personnal computers using bar-code technology. The Line Release System is designed to clear low-risk repetitive type of merchandise. Merchandise on Line Release is subject to random inspections and the Customs Inspector clearing the truck can override the system anytime he deems appropriate and send the shipment to secondary for intensive examination.

This program was tested in Bownsville and El Paso and determined to be a success. We have requested that our district directors begin to expand the system to all ports along our southern border. We think that this allows us to facilitate some low risk merchandise while concentrating our efforts on other shipments that may be more of a risk. The real benefit with this program for truckers comes when they are expedited through a sometime lengthy export clearance on the Mexican side of the border.

Other than for providing training to the Mexican employees we have not and cannot legally take any measures to assure that they are held to the same tests as our officers. This includes the taking of polygraphs and a 250-mile restriction on their assignments.

PROPOSED DISCIPLINARY OR ADVERSE ACTIONS FOR CONFLICT OF INTEREST VIOLATIONS AGAINST MANAGEMENT OFFICIALS

Congressman Hoyer: Over the last 2 years, were there any proposed disciplinary or adverse actions against any management officials within the Customs Service for alleged violations of the conflict of interest statutes or regulations? If so, how many? Did any of these alleged violations concern family members of Customs employees working for the trade community?

Commissioner Hallett: In July 1987, the Customs Service instituted a new system for reporting and addressing situations in which Customs managers and supervisors had family members who were employed with a company or business regulated by or doing business with the Customs Service. The system required managers to report if they had family members employed in Customs regulated businesses and provided an opportunity for the individual or family member to resolve the conflict. Since this reporting system was instituted, all conflict of interest situations to our knowledge have been resolved without the need for discipline or adverse action. Conflict of interest situations are all handled on a case-by-case basis. Each case is reviewed by a Customs Ethics Officer. Where a conflict or the appearance of a conflict is found to exist, the employee is given an opportunity to resolve it. The reporting system was initiated not for the purpose of disciplining employees but rather to prevent the appearance of conflicts of interest, to clarify for the employee those situations which should be avoided and to give a method for resolving the conflict without the need for disciplinary action. In September 1989, after negotiations with the National Treasury Employees Union, the policy was revised to include all Customs employees. We will continue to try to resolve these situations balancing the needs of the Service and our genuine desire not to penalize employees without first giving them an opportunity to resolve the conflicting situation.

CROSSING DELAYS AT BLAINE, WASHINGTON

Congressman Dicks: What are the factors that have caused the delays in processing southbound Canada/U.S. Border crossings at Blaine, Washington?

Is it a problem with Customs, Immigration, or both?

Commissioner Hallett: The factors that caused the delays in processing southbound Canada/U.S. Border crossings at Blaine, Washington, can be attributed to four areas: (1) volume of traffic, (2) facility limitations, (3) staffing, and (4) highway access. As a result of the cooperative effort of local government officials, members of the trade community and tourism industry, local law enforcement officials, and community members, a high level meeting was held at Canada Customs on February 1, 1990, to address those specific problem areas. A steering committee of key government representatives was formed to meet, discuss and define the issues and suggest possible long and short range solutions. The assessment of the four areas is as follows:

(1) Traffic volume will continue to grow. Projections for population growth and property development in the border areas is phenomenal on the Canadian side. Despite currency fluctuations, shopping on the other side of the border will always hold an appeal. Currently, commodities such as gasoline, milk, and sugar can be purchased at a minimum of a 30 percent savings including the Canadian revenue collection. Blaine traffic has doubled in the past 5 years. Customs does not anticipate a downward trend in the near future and recognizes that any strategy must provide for continued growth.

(2) Although some minor facility improvements could be called for, the facilities themselves are not the major impediment to traffic flow. INS reports that proposals to widen the entry area and add a bus lane at Point Roberts are being considered.

(3) Maintaining adequate resources as the workload grows is a major concern for the Customs Service and the INS. Customs had been meeting the growing workload by increasing overtime work assignments and supplementing full-time staff with part-time inspectors. However, these actions proved insufficient as long delays continued in Whatcom County, particularly during the holiday season. Customs is evaluating the situation and is considering other options.

This summer, Customs and the INS are anticipating a similar surge of the seasonal traffic. Customs is exploring ways to further expedite traffic processing and considering possible options for reprogramming of funds to cover part-time salaries, particularly for coverage during the peak season and Goodwill Games. Both agencies are working cooperatively and examining innovative approaches to traffic processing and facilitation including possible "commuter" type lanes and automated license plate readers to address future workload increases.

4) Highway access, while not an area under the direct control of Customs or the INS, may sometimes present artificial barriers or impede traffic flow. Customs and the INS will continue to work with the appropriate government/transportation authorities to provide input and advise them of future needs.

These problems are shared by both Customs and the INS.

CROSSING DELAYS AT BLAINE, WASHINGTON

Congressman Dicks: What steps are being taken to alleviate the situation?

Commissioner Hallett: The following steps are being taken to alleviate excessive traffic congestion and delays at Blaine, Washington:

- U.S. Customs has instituted new vehicle processing techniques and has reduced the average processing time from 30 to 15 seconds per vehicle.

- U.S. Customs has instituted a roving program to expedite vehicle processing.

  Roving permits maximum utilization of additional personnel without the liability of being committed to the maintenance of an additional processing lane. With inspectors overlapping shifts, or experiencing a lighter workload in the non-primary lane assignment they can be dispatched to assist in expediting primary processing.

- The Seattle District has transferred two full-time positions from Seattle to the Blaine/Sumas area.

- Customs is working with the International Boundary Commission, the Canadian Government, and transportation departments of both countries to address the problem at the Blaine Pacific Highway where commercial truck traffic is impeded by passenger vehicle back-ups due to the extremely sharp right turn leading into the truck processing area. Details are being worked out to reconfigure the access, move the boundary marker and straighten out the turn.

- Local Customs managers worked with INS to coordinate a revision of schedules to provide maximum primary land openings to accommodate peak traffic demands.

- Customs is working part-time inspectors on Sundays and Holidays, since that funding is not affected by the budget cuts.

- Customs has utilized special enforcement teams such as the CET team for vehicle processing, with the double benefit of opening of an additional land and increasing enforcement opportunities.

Congressman Dicks: Do the Canadians face similar problems processing northbound traffic? Why/why not?

Commissioner Hallett: The Canadians do face a similar problem processing northbound traffic. Estimates indicate that nearly 80 percent of the Blaine area crossings are attributed to Canadian residents. Demographic studies identify the Vancouver area, like the United States' Seattle area, as one of the fastest growing in the country. The mild climate and industrial growth attract both Canadian citizens and landed immigrants. Development has proliferated in the communities along the border, and local residents find it worthwhile to shop in the U.S. for bargains and commodities not readily available in their own markets.

Canada Customs recently received approximately thirty new positions for the Blaine area crossings. The Canadian processing poses further complications due to the great number of vehicles referred to the secondary office for payment of duty. Canada Customs does not have a provision for waiving minimal duty payments, so traffic in their secondary area can become gridlocked because of limited capacity and the high volume of duty payments collected there. Canada Customs has recently implemented an automated system for the assessment and collection of duties which has streamlined their operation significantly. Despite the new positions and the streamlined system, Canada Customs is still feeling the crush of traffic and looking for further solutions to the growing workload.

CROSSING DELAYS AT BLAINE, WASHINGTON

Congressman Dicks: What other steps are necessary?

Commissioner Hallett: Steps which may alleviate the situation include:

- The reprogramming of funding to cover part-time seasonal salaries.
- Continued efforts by local managers to work cooperatively to maximize use of personnel for primary lane assignments.
- Explore innovative, radical ideas to modernize and speed up border processing. (Such as commuter lanes or the collection of user fees to cover additional border processing staff.)
- Ensure that staffing levels do not fall below established acceptable levels, by planning for retirement and transfers, etc.
- Establish realistic staffing allocation models to determine needs and identify areas where resources are under-utilized as well as areas where Customs staffing levels have fallen well below workload demands.

UNITED STATES CUSTOMS SERVICE

Recap of Proposed Budget Authority/Estimates
(Dollars in thousands)

	Proposed Level for FY 1990			Proposed Level for FY 1991		
	Perm. Pos.	FTE Pos.	Amount	Perm. Pos.	FTE Pos.	Amount
Salaries and Expenses	17,304	16,663	$1,065,169	16,990	16,349	$1,120,086
Operations and Maintenance	--	--	$230,363	--	--	$143,047
Forfeiture Fund	--	--	$14,855	--	--	$14,855
User Fees at Certain Small Airports	30	30	$2,152	30	30	$2,152
Total	17,334	16,693	$1,312,539	17,020	16,379	$1,280,140

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UNITED STATES CUSTOMS SERVICE

SUMMARY OF BUDGET ESTIMATES

FISCAL YEAR 1990

The Customs Service annual appropriations (P.L. 101-136), coupled with resources provided by the Byrd-Hatfield Amendment (P.L. 101-164) and the effect of the sequester, pay raise absorptions, and transfers, totals $1,065,169,000 and 16,663 full-time equivalent positions (FTE). Within these resources Customs will be able to improve its commercial and passenger processing operations and its enforcement programs.

FISCAL YEAR 1991

The Customs Service proposes annual appropriations of $1,120,086,000 and 16,349 full-time equivalent positions. This represents an increase of $54,917,000 and a decrease of 314 FTE from the FY 1990 appropriation. This decrease is the result of a transfer of 55 FTE and $5,316,000 to the Department of Justice for the Organized Crime Drug Enforcement Task Force Program, as well as other reductions resulting from A-76 savings and absorption of pay raise and Administratively Uncontrollable Overtime (AUO) costs. Customs will, where appropriate, contract for functions the private sector can do more efficiently. In FY 1991, Customs will provide more intensive inspections of containerized cargo and be more selective in inspecting persons to more effectively interdict illegal drugs.

Within this overall budget allowance Customs will:

- process 422 million persons, 126 million conveyances, 10 million formal entries of merchandise and collect an estimated $20 billion in revenue;
- maintain a commitment to provide improved commercial processing and compliance standards to the importing public;
- enhance an already high level of drug law enforcement activity consistent with established Administration and Office of National Drug Control Policy (ONDCP) strategy;
- institute sound financial management controls and provide for greater focus on financial responsibilities.

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UNITED ES CUSTOMS SERVICE, SALARIES AND EXPENSES

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount (000)
FY 1990 Appropriation (P.L. 101-136)	17,617	16,976	1,059,634
FY 1990 Appropriation (P.L. 101-164)	130	130	18,000
Adjustments:			
Sequestration (P.L. 99-177)	(218)	(218)	(14,965)
Absorption of Jan. 1990 3.6% pay raise	(225)	(225)	0
Transfer from Department of Defense	0	0	2,500
Authorized Level for FY 1990	17,304	16,663	1,065,169
Estimate for FY 1991	16,990	16,349	1,120,086

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES

(Dollars in Thousands)

	Actuals		Authorized Level		Budget Estimate		Increase (+) or Decrease (-) for FY 1991					
	FY 1989		FY 1990		FY 1991		Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Inspection & Control	1,775	111,319	2,130	131,377	2,292	145,801	162	14,424	162	14,226	0	198
2. Tactical Interdiction	2,588	159,983	2,716	166,698	2,590	176,003	(126)	9,305	(186)	(9,030)	60	18,335
3. Investigations	1,927	168,662	1,659	158,754	1,588	160,129	(71)	1,375	(112)	(3,507)	41	4,882
4. Commercial Operations	10,416	585,624	10,158	608,340	9,879	638,153	(279)	29,813	(181)	(945)	(98)	30,758
Total obligations		1,025,588		1,065,169		1,120,086		54,917		743		54,174
Unobligated balance available, BOY		(1,854)		(440)		(440)		0		0		0
Unobligated balance available, EOY		440		440		440		0		0		0
Unobligated balance lapsing		5,973		0		0		0		0		0
Total appropriation, authorized level and budget estimate	16,706	1,030,147	16,663	1,065,169	16,349	1,120,086	(314)	54,917	(317)	743	3	54,174
Permanent positions	17,380		17,304		16,990		(314)		(317)		3	

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SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in Thousands)

	Inspection and Control			Tactical Interdiction			Investigations			Commercial Operations			Total		
	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount
Program Changes:															
1. Internal Controls	1	1	504	1	1	625	1	1	668	7	7	3,403	10	10	5,200
2. Canine Teams & Facilities	23	23	5,400										23	23	5,400
3. Money Laundering							0	0	1,574				0	0	1,574
4. SW Border Inspections	175	175	10,000										175	175	10,000
5. ACS	0	0	0	0	0	0	0	0	0	13	13	5,300	13	13	5,300
6. Base cuts to offset pay and other absorptions	(37)	(37)	(1,678)	(45)	(45)	(2,141)	(29)	(29)	(1,304)	(170)	(170)	(8,008)	(281)	(281)	(13,131)
7. Base cuts to offset AUO absorptions	0	0	0	(142)	(142)	(7,514)	(84)	(84)	(4,445)	(31)	(31)	(1,640)	(257)	(257)	(13,600)
Total, Program Changes	162	162	14,226	(186)	(186)	(9,030)	(112)	(112)	(3,507)	(181)	(181)	(945)	(317)	(317)	743
Other Changes:															
A. Annualize FY 1990 Money Laundering initiative	0	0	0	0	0	0	96	96	5,601	0	0	0	96	96	5,601
B. Annualize FY 1990 Air Staffing initiative	0	0	0	60	60	5,908	0	0	0	0	0	0	60	60	5,908
C. SW Border Facilities	0	0	0	0	0	0	0	0	0	0	0	2,248	0	0	2,248

	Inspection and Control			Tactical Interdiction			Investigations			Commercial Operations			Total		
	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount
Other Charges (continued):															
B. Adjustments necessary to maintain current levels:															
1. Annualization of FY 1990 Pay Act increases	0	0	776	0	0	990	0	0	604	0	0	3,697	0	0	6,067
2. Increased cost for proposed FY 1991 pay raise	0	0	2,361	0	0	3,012	0	0	1,838	0	0	11,249	0	0	18,460
3. Increased cost for ES/SES pay raise (P.L. 101-194)	0	0	83	0	0	106	0	0	65	0	0	395	0	0	648
4. Increased cost of Admin. Uncontrollable Overtime AUO	0	0	0	0	0	7,514	0	0	4,445	0	0	1,640	0	0	13,600
5. Additional compensable day compensation and benefits	0	0	332	0	0	423	0	0	258	0	0	1,579	0	0	2,592
6. Increased cost of health insurance	0	0	540	0	0	689	0	0	421	0	0	2,574	0	0	4,224
7. Increased cost of workers compensation	0	0	157	0	0	200	0	0	122	0	0	747	0	0	1,226
8. Increased cost of other employee benefits	0	0	151	0	0	193	0	0	118	0	0	721	0	0	1,183
9. Increased cost of travel & transportation of persons	0	0	203	0	0	259	0	0	158	0	0	967	0	0	1,587
10. Increased cost of transportation of things	0	0	31	0	0	39	0	0	24	0	0	147	0	0	241
11. Increased cost for rent, communications & utilities	0	0	121	0	0	155	0	0	94	0	0	567	0	0	937
12. Increased cost of printing	0	0	35	0	0	45	0	0	28	0	0	169	0	0	277
13. Increased cost of other services	0	0	682	0	0	869	0	0	532	0	0	3,286	0	0	5,367
14. Increased cost of supplies	0	0	84	0	0	107	0	0	65	0	0	399	0	0	655
15. Increased cost of equipment	0	0	265	0	0	338	0	0	206	0	0	1,258	0	0	2,067
Subtotal, Maintaining Current Levels and Other Increases	0	0	5,821	60	60	20,848	96	96	14,578	0	0	31,642	156	156	72,888

	Inspection and Control			Tactical Interdiction			Investigations			Commercial Operations			Total		
	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount	Pos.	FTE Pos.	Amount
Nonrecurring Costs and Savings:															
1. Nonrecurring costs of cargo examination initiative	0	0	(5,614)	0	0	0	0	0	0	0	0	0	0	0	(5,614)
2. Nonrecurring costs of money laundering initiative	0	0	0	0	0	0	0	0	(4,374)	0	0	0	0	0	(4,374)
3. Nonrecurring costs of DoD transfer	0	0	0	0	0	(2,500)	0	0	0	0	0	0	0	0	(2,500)
4. A-76 adjustment	0	0	0	0	0	0	0	0	0	(98)	(98)	(831)	(98)	(98)	(831)
5. Adjustment from FY 1990 sequestration recalculation	0	0	(9)	0	0	(12)	0	0	(6)	0	0	(52)	0	0	(79)
Subtotal, Nonrecurring Costs and Savings	0	0	(5,623)	0	0	(2,512)	0	0	(4,380)	(98)	(98)	(883)	(98)	(98)	(13,398)
Transfers:															
1. Transfer to Justice Dept. for Money Laundering (OCDETF)	0	0	0	0	0	0	(55)	(55)	(5,316)	0	0	0	(55)	(55)	(5,316)
Subtotal, Transfers	0	0	0	0	0	0	(55)	(55)	(5,316)	0	0	0	(55)	(55)	(5,316)
Total, Other Changes	0	0	198	60	60	18,336	41	41	4,882	(98)	(98)	30,759	3	3	54,174
Total, Increases or Decreases in FY 1991 Compared with Proposed FY 1990 Authorized Level	162	162	14,424	(126)	(126)	9,305	(71)	(71)	1,375	(279)	(279)	29,813	(314)	(314)	54,917

United States Customs Service, Salaries and Expenses

SUMMARY OF JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

The United States Customs Service is the primary border enforcement agency and a large revenue producer. Customs administers and enforces the Tariff Act of 1930 and some 400 other provisions of laws and regulations of 40 other Federal agencies governing international traffic and trade. Customs' mission is multifaceted and mandates the Service to:

- o Control, regulate and facilitate the movement of carriers, persons and commodities between the United States and other nations.
- o Protect the American consumer and the environment against the introduction of hazardous and noxious products and protect American industry and the American worker against unfair competition from foreign manufacturers.
- o Assess, collect and protect the revenue accruing to the United States from duties, taxes and fees incident to international traffic and trade.
- o Detect, interdict and/or investigate:
  - Smuggling and other illegal practices designed to gain illicit entry into the United States of prohibited articles, narcotics, drugs, and other contraband.
  - Fraudulent activities calculated to avoid payment of taxes and fees, or to evade legal requirements of international traffic and trade.
  - Illegal transfers of critical technology to foreign nations for the building of their military systems, and posing a threat to our national security.
  - Illegal international trafficking in arms, munitions and currency.

The FY 1991 requested Salaries and Expenses appropriation is $1,120,086,000 and 16,349 full-time equivalent positions. This represents a net increase of $54,917,000 and a net decrease of 314 FTE from the FY 1990 appropriated level. Program changes include new initiatives totalling $27,474,000 and 221 FTE, offset by base cuts totalling $26,731,000 and 538 FTE required by absorptions of increased costs of AUO and pay raise and other costs. Other changes total $54,174,000 and 3 FTE and are the net of a transfer of $5,316,000 and 55 FTE to the Department of Justice Organized Crime Drug Enforcement Task Force (OCDETF), increases for maintaining current levels, annualization, and costs associated with renovations of Southwest Border facilities, totalling $72,888,000 and 156 FTE, and decreases of $13,398,000 and 98 FTE from nonrecurring costs of FY 1990 initiatives and from A-76 savings.

In FY 1991, Customs will continue to build on earlier accomplishments by increasing the use of automated and selectivity approaches in enforcement and commercial operations. Customs will reduce its commercial staffing by 98 FTE as a result of productivity improvements caused by increased use of the Automated Broker Interface and other modules of the Automated Commercial System, and contracting out suitable functions. Customs will increase the level of intensive examination of cargo containers for illicit drugs.

A coordinated interdiction effort, encompassing all Federal and local agencies, is operating at our borders. To support this interdiction effort, Special Operations are directed at specific smuggling modes, particularly small boats, and at critical border locations. Operation C-Chase International achieved excellent results against smugglers world-wide, and we believe long-term disruption has been achieved. Significant progress has also been achieved in expanding automated systems for merchandise processing, revenue collections and enforcement. For each of these programs, Customs intends to continue its operations. Further details on these priority activities, as well as full descriptions of all major programs and selected workload data, are provided in the following sections.

1. Inspection and Control

The objective of Inspection and Control is effective enforcement of Customs laws and regulations and other agency requirements for carriers, cargo, and persons entering and departing the United States. This includes the detection and interception of contraband, including narcotics, currency, pornography, and prohibited merchandise.

Continuing inspectional enforcement effectiveness when confronted with increasing workload is a major long-term problem of the Customs inspectional program. To accommodate workload growth, Customs inspectors have improved enforcement, particularly through better targeting of suspect cargo containers for intensive, selective inspections. Automated systems continue to decrease the paperwork burden for inspectors, provide the information needed for more effective selectivity, providing better movement of passengers and cargo. Operational Analysis Staff (OAS) development continues as a priority to establish, develop, and update enforcement criteria for our automated systems at the district level. In addition, through the use of the selectivity, Contraband Enforcement Teams (CET) achieve excellent results inspecting enormous amounts of cargo arriving at ports nationwide.

Expanded use of automated systems, selectivity, and innovative techniques have replaced traditional labor intensive processes, thereby improving overall efficiency. Major inspectional initiatives are: a) Red/Green processing, which facilitates the rapid examination of low-risk passengers in a green primary lane while allowing inspectors to focus their main concern on high-risk passengers; b) inspectors that operate outside of traditional passenger processing procedures; and c) ACS selectivity, a selective examination and law enforcement technique that identifies low-risk merchandise shipments for an expeditious release and high-risk shipments for an intensive examination.

Improved enforcement effectiveness has been maintained by concentrating resources in priority areas and the implementation of special enforcement teams, comprehensive District Drug Strategies, and a national container interdiction strategy.

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Since FY 1988, inspection and control activities related to commercial merchandise processing have been included in the Commercial Operations Activity. Customs goal is to carry out this mission efficiently, without burdening the public by the imposition of excessive regulatory requirements, processing times, and inordinate costs. For additional information pertaining to the Merchandise Processing Activity, refer to Section 4 (Commercial Activities).

Enforcement and facilitation are viewed as compatible program objectives, and Customs will continue to balance the expeditious processing of people and goods with strict enforcement of laws against smuggling. Since most people serviced by Customs are law-abiding, inspectors focus efforts on "high-risk" passengers and cargo while allowing all other travelers and goods to receive minimal attention. In FY 1991, we will continue to make further progress on passenger and cargo facilitation, as well as improve combatting drug smuggling.

FY 1990 Strategies:

During this fiscal year, the inspection program has placed particular emphasis on improving enforcement techniques at the nation's borders as well as selectivity systems at major airports and seaports. To coordinate and support inspectional enforcement efforts, Operational Analysis Staffs (OAS's) are identifying individuals, transactions, and areas that pose the highest risks. Selectivity also is enhanced by the cooperative efforts with foreign customs services which provide pre-arrival information on passengers from high-risk countries. Customs joint enforcement initiatives with air and ocean carriers are designed to increase productivity. A primary goal is obtaining advance data on potential smugglers and smuggling related to in-bound persons, carriers, and shipments so the inspectors can pinpoint their efforts. Advance passenger information is one aspect of an overall automation strategy in the passenger processing area.

Other enforcement and selectivity efforts include: an emphasis on high-risk private aircraft and small vessels; improved canine enforcement; X-raying of air cargo containers; and the testing of new examination/enforcement systems for cargo control.

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FY 1991 Strategies:

The primary emphasis of Inspection and Control will be to maximize interdiction of drug traffickers and smugglers. The increasing infusion into the U.S. of illegal drugs -- especially cocaine -- requires Customs to expedite the release of "low-risk" travelers and cargo so that highly suspicious travelers and merchandise can undergo intensive examination. Efforts will be directed towards collecting, processing and disseminating intelligence for accurate identification and targeting of suspect importers or passengers.

Since all inspectors at the nation's largest airports have been trained in observational profile techniques and stress analysis, Customs passenger processing will continue to improve. The extremely successful Red/Green self-selection mode encourages the rapid processing of law-abiding travelers. Further refinement of red-green processing will result in the use of advance information to select, prior to arrival, passengers who are an enforcement risk. Low-risk passengers will be expedited in this process, with the focus of inspection centered on selected flights and individuals posing the greatest threat of smuggling.

Over the long term, Customs seeks maximum inspectional enforcement results via appropriate combinations of processing and interdictory techniques. Portable contraband detectors, specialized chemicals to make drugs easier to detect, large-scale, fixed X-Ray systems, and other specialized techniques are used in baggage and cargo screening. Automated passport and visa readers increase inspectors' ability to process travelers quickly and detect violators more efficiently.

Passenger Processing:

Passenger Processing goals for Fiscal Year 1991 will build upon the initiatives begun in fiscal years 1989 and 1990. Among the major initiatives will be regulatory changes to reporting procedures. Under the proposed rule-making, private aircraft considered a relatively high-risk category have undergone stringent reporting and inspection changes. Small boat reporting requirements have been implemented in the Miami area that provide severe penalties for operators that fail to report their arrival to Customs.

By taking advantage of the efforts and information provided by carriers at overseas locations, Customs will be better able to continue to control passenger processing flows. Customs improved control of the passenger processing environment will facilitate the continued identification of internal conspiracies by airline employees. The Department of State is issuing machine readable passports and is considering the issuance of machine readable visas. These readers automatically query TECS data bases, thus allowing our inspectors time to conduct more extensive interviews for the selection of high-risk travelers.

In conjunction with the Department of State and the INS, Customs will be using the Interagency Border Inspection System (IBIS) to increase the flow of information between all agencies with border enforcement responsibilities.

Contraband Enforcement Teams (CET):

CET accounted for a significant percentage of all cocaine seized by Customs in FY 1989, underscoring its effectiveness in combating the shift of cocaine smuggling to containerized cargo. To concentrate on the larger quantities of narcotics to be found in containerized cargo, Customs is currently adding additional staffing to the containerized cargo examination program. Future efforts will focus on more specific targeting and examination of high-risk transactions with the potential for larger, more significant seizures of narcotics. This will be accomplished through the use of Operational Analysis Staffs (OAS) and threat assessments, pre-arrival manifest information, more thorough container and aircraft searches, added air and vessel carrier agreements, and international cooperation.

Interdiction Strategies:

The National Drug Policy Board Land Interdiction Strategy is the centerpiece of Inspection and Control's narcotics interdiction effort. Our objective is to target large loads of cocaine and marijuana in containers through the Container Interdiction Strategy. Each Customs district has formulated and implemented strategies (District Drug Strategies) in a nationwide program to focus inspectional resources and special operations on identified narcotics threats particular to each district. These strategies emphasize systematic, sustained efforts and are coordinated with other federal, state and local agencies.

Canine Enforcement Program:

Customs Canine Enforcement Program is integrated in the overall Customs enforcement strategy in two areas: drug detection and international cooperation. Canine Enforcement Program resources are primarily aimed at interdicting narcotics. In addition to training U.S. Customs canine teams, the training center assists foreign, as well as state and local governments to develop similar programs. This contributes not only to international cooperation but also to significant seizures of drugs destined for the United States before it can arrive. While the primary objective is narcotics interdiction, the program also provides additional benefits: interagency/international cooperation, public education, and deterrence. Renovation and expansion of the canine training center will provide Customs the flexibility to meet enforcement priorities and continue to support foreign, state, and local training efforts.

Port Security Program:

Because of threats against inspectors along the Southwest border, some of which were carried out, nine ports were closed in February 1985 until a security plan could be successfully implemented to return ports to normal service. Seven of the nine ports returned to normal service. Basic security and personal alarm systems are now installed at all Southern land border ports. To further improve security, video surveillance and recording systems, lighting, barriers and speed bumps, and improved communications were also installed. Our efforts to ensure the safety of Customs Officers and the security of our port facilities will continue to be a high priority.

Airport security will continue to be stressed. Regulatory changes implemented in FY 1986 will be enhanced through changes that will require bonds to be posted by employers whose personnel have been subject to background investigations and have been issued U.S. Customs identifications to enter Customs controlled areas of international airports. Customs is also working in conjunction with the FAA and the Coast Guard in order to improve interdiction. This includes improving the documentation used to register aircraft and certify airmen.

Customs efforts to balance the expeditious processing of people and goods with effective enforcement of the laws against smuggling will continue in FY 1991. Efforts will be implemented to achieve this balance economically and effectively, at minimum cost to both government and industry. Having implemented selectivity -- by concentrating on the minority of wrongdoers while facilitating the law-abiding majority -- Customs continues to expect good results in FY 1991.

2. Tactical Interdiction

The Tactical Interdiction Program was established to protect the nation's extensive border areas by providing mobile air and sea interdiction units designed to counter the growing narcotics and contraband smuggling threat. Since drugs constitute a majority of the contraband, our efforts are primarily dedicated to stopping the flow of narcotics across our borders.

Customs operational approach to the Tactical Interdiction mission is to aggressively counter today's massive smuggling by deploying units to meet a geographically shifting drug problem and by concentrating resources in high threat areas. For several years, primary emphasis was the Southeast border. This area was experiencing a massive drug smuggling problem and in addition, illegal currency entered and left the country daily. Smugglers are using private aircraft, vessels, cargo shipments and air passengers to bring in enormous quantities of marijuana, cocaine and heroin. Private yachts and "Mother" ships, sailing directly from source countries, regularly landed vast quantities of marijuana along the Florida and Gulf Coasts. Organized drug smuggling is a responsive business. Organizations respond both to consumers and to major disruptions caused by increased law enforcement presence. Smugglers continually vary and develop new routes, destinations and methods utilized in their smuggling resources and responses. Much of the shift of smuggling to the Gulf Coast and Southwest land borders is a result of law enforcement success experienced in the Southeast over the past few years.

The lucrative nature of the narcotics trade allows and encourages smugglers to develop new alternatives and use state-of-the-art technology to evade enforcement efforts. Customs tactical interdiction forces must meet this challenge by placing more emphasis on the development and application of tactical intelligence, the use of up-to-date technology, and the implementation of sufficient mobility to achieve an optimum deployment; in essence, to be in the right place at the right time. Therefore, we continue building and supporting our law enforcement assets in the Southwest to counter this smuggling shift.

Aviation Program:

Contraband smuggling, specifically by aircraft, is a major Customs enforcement problem. The staff for this program is funded by the Salaries and Expenses Appropriation. Operation and maintenance of aircraft, radar, and communications systems for this program are funded by the separate Air Operations and Maintenance Appropriation. Large quantities of contraband, especially narcotics, continue to be smuggled across the U.S. borders. Our analysis indicates that major threat areas are and will continue to be the Southeast and Southwest. The success of our multiple enforcement efforts in the Southeast has resulted in an increased narcotics threat from the Bahamas and along the Southwest border, as well as a change in smuggler tactics.

The South Florida Task Force and other continuing enforcement activities in South Florida have resulted in a reduction in air smuggling attempts across the border between Fort Myers and West Palm Beach and an increase in offshore airdrops and landings in the Bahamas.

Based on the successful strategy applied in the southeast, we are establishing air modules along the entire Southern border. The basic premise of the air module is to provide Customs with the ability to detect, sort, intercept, track and apprehend the air smuggler. A major attribute of the air module is its flexibility to meet a perceived threat.

The Customs Service is establishing two Command, Control, and Communications Intelligence Centers (C3I's) and a Customs National Aviation Center (CNAC). These centers are designed to gather information and direct service-wide operations. Additional support is being provided to the El Paso Intelligence Center (EPIC), and the National Drug Intelligence Center. Together, EPIC and these centers form a system specifically tailored to produce analyses that will identify and track smuggling organization activity, resources and methods of operations. It provides Customs with improved capability to efficiently direct its resources, to respond to changes in smuggling activity, thereby increasing the risk to smugglers.

Marine Program:

In coordination with the Aviation Program, the Customs Marine Program protects the sea approaches of the nation's borders. Smuggling by pleasure craft and fishing vessels has increased as enforcement efforts against other means of trafficking have proven fruitful. To counter this, Customs is working to improve its detection, sorting, interception, tracking and apprehension capabilities in the Marine Program. Major emphasis is being placed on sorting high-risk targets from legitimate traffic to better utilize our resources. This will result in increasing the risk and costs to smugglers, while reducing the level of smuggling by pleasure craft and fishing vessels.

The Blue Lightning Operations Center (BLOC) at Miami is now co-located at the new C3I-East Facility. It includes marine radars, aerostat detection, and the Aviation Program, which are continuously undergoing enhancements. BLOC is not limited to detection functions, but also has a secure communications network and access to an intelligence data base. It exercises command and control over numerous Federal, State and local law enforcement resources.

The development of marine interdiction resources requires a systematic approach, using both surface and air marine target detection methods. Customs will continue to use NOMAD Aircraft outfitted with the latest 360 degree marine target detection radar, sensors, navigation equipment, avionics and communications equipment specifically designed to provide enhanced detection, sorting and tracking capabilities combined with mobility and flexibility in reacting to the changing threat.

FY 1989 was a highly successful year for the Customs Marine Program. Customs marine personnel conducted 8,627 law enforcement boardings and were responsible for the seizure of 39,897 pounds of cocaine, 159,378 pounds for marijuana, 50,404 pounds of hashish, $14,480,036 in currency, 254 smuggling vessels and 48 smuggling aircraft along with 932 drug smugglers.

FY 1989

The Vessel Maintenance Contract (VMC), implemented in March 1988, has proven to be extremely beneficial in that it has resulted in greater vessel preparedness and availability. Vessel downtime due to mechanical or electronic difficulties has been significantly reduced and serviceability of an aging fleet has been greatly enhanced as a result.

Additionally, the USCS fleet in the Southeast Region now experiences higher levels of availability and performance. Through the VMC we have been able to identify specific problems endemic to certain products and initiated alternative maintenance measures to preclude them before they occur.

Based on a Marine Enforcement Review, Customs was able to implement a significant reduction in the Customs fleet (25%) in FY 1989. Despite this reduction, the program support to enforcement priorities and numerous special operations have been maintained.

FY 1990/1991

In FY 1990 and 1991, Customs will initiate limited vessel replacement using sale, exchange and forfeiture monies. Placement and possible expansion nationally of the "Vessel Maintenance Contract" (VMC), will allow Customs to use older vessels for longer periods. The vessels of the future will be multi-purpose and provide Customs with a greater ability to meet changing smuggling trends. The Customs Marine Program also continues to use investigations as a major factor in combating marine smuggling, allowing Customs to keep its fleet smaller, yet more responsive to changing threat. However, in certain areas, vessels will be required to participate in some "cold interdiction operations".

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3. Investigations:

This program is responsible for investigating violations of laws and regulations enforced by Customs, including currency, neutrality, smuggling, illegal exports of critical technology and arms, cargo theft and child pornography. These investigations support our priority enforcement efforts against narcotics smuggling, economic crime, and national security violations.

Three major areas are currently emphasized: financial investigations, export enforcement, and international enforcement. Customs actively seeks the prosecution of sophisticated criminal enterprises associated with financing drug smuggling and violations of the Currency Reporting and Bank Secrecy Acts. In addition, Customs continues to emphasize the detection and prevention of illegal exports of critical technology to Soviet Bloc countries and the reduction of illegal traffic in arms and munitions. International enforcement emphasizes improved intelligence gathering methods and the exchange of intelligence with foreign law enforcement counterparts to provide leads and intelligence to support domestic investigative activity. Customs is aggressively investigating child pornography cases and working to stem the flow of importations at the source countries.

The primary thrust of the Customs Investigation Program is aimed at major and permanent disruptions to large-scale criminal enterprises, without interfering with legitimate business activities. Targeting is the principal technique used to implement a more selective and effective system that minimizes disruption of legitimate activities while still enforcing the law. By continuing to identify and investigate major violators, Customs is ensuring that its resources are efficiently used and the American public is well served.

Financial Law Enforcement Program:

Customs financial enforcement program focuses on the illegal flow of money and proceeds of major criminal enterprises. The objective is to interrupt that flow, seize the assets of the enterprise, and successfully prosecute those individuals who direct and control the organization. It focuses on investigations of organizations and individuals responsible for money laundering schemes in violation of the Bank Secrecy Act (BSA).

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United States Customs Service, Salaries and Expenses

The U.S. Customs strategy for financial investigations is to target and aggressively pursue money laundering organizations at the point of the initial disposal of the cash profits into international channels, the "placement stage." Customs will disrupt the international movement of the funds by identification of the funds, the laundering methods, and the financial infrastructure responsible for the movement of the funds, using the support of both intelligence and enforcement functions.

To this end, Customs has been an active participant in establishing the Financial Crimes Enforcement Network (FINCEN). FINCEN is an all source, all crimes financial intelligence initiative, which provides and coordinates data from Federal, State, and local law enforcement and regulatory agencies as well as from the financial, industrial, and private sectors both in the United States and abroad.

The financial law enforcement program is also comprised of multiagency and/or international joint financial task forces, located in cities throughout the U.S., and over 20 foreign countries. These operations do not include the Organized Crime Drug Enforcement Task Force (OCDETF), which as a result of the 1988 Drug Bill is funded by the Department of Justice in the form of $25 million in reimbursements to Customs.

For FY 1989, the financial law enforcement program seized $225 million in monetary instruments, a 37 percent increase over FY 1988; issued $34.6 million in civil penalties, a 276 percent increase over FY 1988; and shared $31.3 million in monetary instruments with State and local law enforcement agencies, a 250 percent increase over FY 1988.

For FY 1990, Customs is training Federal, State, local and foreign law enforcement officials on the management and dissemination of financial crimes intelligence; expanding Customs involvement in joint international endeavors with foreign law enforcement authorities to disrupt international money laundering organizations and prevent the international flow of their criminally derived funds; participating in the development of all legislation, treaties and/or agreements which impact upon international money laundering investigations; and improving the financial information exchange between law enforcement and regulatory agencies through Customs Attaches and FINCEN to identify the illegal movement of funds.

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FY 1991 goals are to maintain the number of seizures of illicit currency transportation and identify the entities responsible; research, identify, develop, and disseminate information on methods to combat international money laundering; and emphasize both narcotic and non-narcotic money laundering investigations. Also in FY 1991, additional resources will be transferred to the Justice Department in support of OCDETF. Associated funding will subsequently be returned to Customs in the form of reimbursements to support 55 FTE.

Export Enforcement:

Customs has implemented a comprehensive program to combat the threat of illegal exports of arms and munitions to other countries or terrorist groups. Investigations conducted to date have revealed a broad pattern of criminal activity, and intelligence reports indicate that this threat is growing. In carrying out the export enforcement effort, Customs works closely with a variety of government enforcement and intelligence agencies.

Interdiction, investigation and international cooperation are the three basic elements of the export enforcement program. These elements provide a highly visible deterrent and have a valuable compliance impact on the domestic high technology manufacturing and exporting industry. A proactive investigative approach to detect and disrupt illegal criminal conspiracies before they occur has been adopted. This is accomplished through undercover operations, covert "sting" activities, development of informants, active solicitation of informants from legitimate exporters, and enhancing international enforcement through training and intensive information exchange.

FY 1989 was marked by a number of export enforcement initiatives and stepped-up investigative activity. An intensified outbound drive against illegal munitions exports to Andean Nations was implemented (Project EXSTAR); existing programs directed against illegal exports of Missile and Nuclear Technology were strengthened; and new programs were launched against drug chemical precursors (ChemCon) and munitions exports to Latin America. For FY 1989 as a whole, Customs made 1,424 seizures of merchandise valued at $105.3 million, while achieving a very high 93 percent seizure to detention ratio.

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United States Customs Service, Salaries and Expenses

For FY 1990, Customs will concentrate on improving the training and effectiveness of Customs foreign offices; increasing support for the ChemCon, Biological/Chemical Warfare, Missile Tech, and Nuclear Tech programs -- all directed against illegal exports; and providing support for Office of National Drug Control Policy (ONDCP) initiatives by interdicting illegal exports of weapons and munitions to Andean Nations.

During FY 1991, Customs will concentrate on further improving the operational effectiveness of the existing field agent force through specialized training seminars; use of undercover operations; improved cooperation with the intelligence community; strengthened cooperation with COCOM and foreign counterparts; and providing high priority to programs in support of ONDCP initiatives involving illegal exports to Andean Nations involved in drug production and processing.

International Enforcement:

Our Attaches and Customs Representatives overseas play a vital role in gathering intelligence on violations of Customs laws and regulations as well as laws enforced by Customs on behalf of other agencies. It is vital to Customs enforcement that we maintain our commitments in the foreign offices so that appropriate follow-up on all investigations of international criminal activity affecting the welfare and revenue of the United States can be implemented.

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4. Commercial Activities

Commercial Activities implement U.S. trade policy and have the overall mission of (1) collecting duties from imported merchandise; (2) enforcing the laws and regulations of over 40 other Federal agencies and international codes and agreements and (3) providing for uniformity of trade procedures and its implementation.

U.S. trade policy continues to be driven more by the imposition of non-tariff barriers such as voluntary restraint agreements, licensing, quotas or restraint levels, bilateral textile visa agreements, and trade sanctions on individual countries or groups of countries than by the revenue collected. Non-tariff barriers include the following: various agreements including the International Sugar Agreement, European Community (EC) Pasta Agreement, Tungsten Agreement with China, Softwood Lumber Agreement with Canada; Voluntary Restraint Agreements, (VRAs) with 29 countries for steel will be renewed and with Taiwan and Japan for machine tools; textile visa agreements with 34 countries; import restraint levels on textiles from 43 countries; import restraint levels on various dairy products, steel, chocolate, meat, fish, broomcorn, and peanuts; trade sanctions on Brazil, EC, and Japan, as well as individual companies like Toshiba of Japan; and monitoring programs on semiconductors from Japan. In addition, Customs must prudently administer trade enhancement programs such as the Canadian Free Trade Agreement, Caribbean Basin Initiative, and General Systems of Preferences.

A major issue continues to be how to facilitate cargo and entry processing, while at the same time maintaining high compliance levels despite an increasingly complex workload. Currently, Customs is improving compliance for expanded entry workloads through the use of increased selectivity supported by automated processing. The automated system is designed to select entries for processing by increasing communications between Inspectors and Import Specialists, as well as Customs Officers in different sections of the country. Even though the selectivity system has reduced the number of examinations, Customs now identifies more discrepancies, thereby producing a more efficient use of personnel.

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To facilitate passenger and cargo processing, efforts to automate commercial activities are continuing. Expanded use of automated systems, selectivity and innovative techniques have been substituted for traditional labor intensive processes, thereby improving the overall efficiency while handling increased workload. Equipment for linking field operations to the national computer and an automated interface with brokers, importers, and other agencies is being installed. An automated manifest system is in place for sea carriers and one air carrier is being phased in. However, due to past progress our ability to absorb workload by expansion of ACS has reached its limit. Expanded use requires a more sophisticated use of our computer systems. Better database usage, as well as new technologies such as artificial intelligence, will enable us to select low risk merchandise quickly and target high-risk merchandise for the more labor intensive enforcement efforts.

Fraud

Commercial fraud detection is also a high priority effort. Customs emphasis on deterring fraud and protecting revenue has been significantly enhanced by a centralized approach coordinating and disseminating information and intelligence to field units. Furthermore, special fraud teams consisting of Import Specialists, Inspectors, Laboratory personnel, Special Agents, and Regulatory Auditors are now operating in most Districts. In addition, mobile scientific personnel support District anti-fraud operations. Teams are responsible for developing leads using multidisciplinary expertise in commercial transactions to detect potential fraudulent activities. Import Specialists have expanded their role in fraud teams, special analytical teams, and in assessment of penalty cases. Import Specialists and other Customs Specialists also use their expertise to develop sound information for criminal and civil violations. This multidiscipline approach has increased Customs success in prosecuting major violators. Of particular interest, the laboratory is supporting the fraud program by increased sampling analysis and use of sophisticated analysis technology. Training emphasizes the identification of high payoff cases.

ACS

By automating most of the duty assessment system, the large volume of entry paperwork is increasingly more cost-effectively and efficiently processed. The Automated Commercial System (ACS), which integrates existing commercial systems under a comprehensive data bank, will implement a combined merchandise processing system. As part of the system, the

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Automated Broker Interface (ABI), not only reduces the paperwork burden on the public, but also decreases the costs to Customs. When Customs revised or eliminated certain forms and regulations, overhead costs for both Customs and the business community were greatly reduced. The replacement of the former Tariff Schedules of the United States with the International Harmonized System of Tariff Classification greatly facilitates international trade for both exports and imports.

Preparing for the Future

In the next decade, we are preparing for another explosive growth in trade. Duty collections have increased from $6 billion to almost $20 billion since 1978. By the year 2000, we expect to collect up to $40 billion. In the early 1980's there were 4 million formal entries: by 1988, that figure had risen to 8.5 million, and by the year 2000, we are projecting growth to 20 million entries.

To prepare for such dramatic workload increases, we have initiated the following programs: development and refinement of the Automated Commercial System; improved uniformity of processing; elimination of workload backlogs; continued commitment to the detection, deterrence and prosecution of commercial fraud; protection of intellectual property rights through improved selectivity; developing and encouraging uniform international commercial processing procedures; and continually updating outdated legislation and regulations.

Over the next few years, we will continue to automate commercial processing functions with an overall goal of achieving paperless commercial processing. The next major step in accomplishing this is to automate other agency information collection requirements as Customs collects information for approximately 40 other governmental agencies. Additionally, further automation of quota and visa functions is also planned. In order to achieve this goal, data exchanges with other countries will be required.

National Entry Processing

In order to keep up with industry demands, we will be implementing a National Entry Processing (NEP) approach to importations. The goals of NEP are to derive the greatest benefits from electronic and paperless processing, maximize the number of importers/filers who utilize it, and permit Customs to process more transactions with less risk.

Changes are planned to bring outdated regulations up to date, enable Customs to operate in an automated environment, and require the importing community to assume greater responsibility for accurate filing of entries.

Uniformity

In January 1989, the United States adopted the Harmonized Tariff Schedules (HTS). The HTS contains approximately 14,000 commodity breakdowns. The Harmonized System provides the U.S. and other trading nations with a common basis for classifying merchandise and is used by U.S. exporters as the basis for export classification.

Uniform tariff classification is fundamental to the efficient administration of U.S. trade and tariff laws. Tariff classification determines both the rate of duty to which merchandise is subject, and whether it is subject to quota or other types of restrictions. Internally, Customs uses the tariff classification to determine which entries of merchandise will be subject to intensive examination and investigation. Adoption of the Harmonized System has helped diminish paperwork requirements among participating countries and set the stage for automated point-to-point clearance of goods transferred from one country to another.

Since January 1989, Customs has implemented a new 30-day classification system which makes importing more uniform and allows advance duty rates determination. The District Binding Ruling Program has provided a modern and commercially meaningful approach to fulfilling Customs mission. To date, in excess of 15,000 rulings have been issued and no deadlines have been missed.

Also planned for early 1990 is a capability for electronic mail between Customs and automated trade users of ABI which provides a faster, more efficient means of corresponding, resulting in more timely and uniform action on questions and issues.

Pre-Entry Classification Program

All merchandise is eligible for participation in the pre-entry classification program. However, Customs has initially identified high volume importers and commodities involving multiple ports of entry. Once issued a pre-entry classification, the National Import Specialist (NIS) has 45 days to review the classification and discuss any questionable

classification decisions. In the event that a classification decision changes, the importer is notified immediately of the change. Once Customs approves the pre-entry classification, it becomes binding at all ports of entry.

Customs Information Exchange (CIE)

Efforts to effectively achieve classification uniformity depend on a more efficient system for reporting, resolving and disseminating classification issues and decisions. The Customs Information Exchange System (CIE) targets uniformity, but was encumbered by manual processing procedures of Customs Form 6431, Report of Classification and Value, the primary tool for exchanging information between National Import Specialists and Field Import Specialists. Automating the CIE has contributed to overall efficiency by providing the means for field Import Specialists to electronically supply classification, value, admissability, and statistical information to National Import Specialists.

Expansion of the Uniformity Program

The uniformity program has now been expanded to all components of commercial processing. Aspects include the rebuilding of the import specialist workforce, the promotion of initiatives to insure uniformity in classification decisions, an increase in the level of automation for commercial processing, and the implementation of a program to ensure accountability and quality assurance.

In FY 1990, a Drawback Revitalization study identified problems and recommended viable solutions for drawback, liquidation and vessel repair. Over $350 million was refunded for drawback claims filed in FY 1989. Some of the recommendations concerned ways to improve processes and emphasize our dual responsibilities of enforcement and service to the public. A prime example is our commitment to enhance system capabilities and provide for automated broker interface participation through a redesigned drawback module.

Nearly $100 million in Customs bills for duties, taxes and fees remain suspended from collection efforts because entries to which they pertain are currently under protest. Major improvements will involve regulation change, form revision, policy establishment and education. The Quality Assurance Field Team conducted a protest review. Over 61,000 protest and 520(c) "disagreements" are being worked nationally in calendar year 1989.

The Collections task force was established to look at collection procedures, accountability and internal controls. It has resulted in improved operational guidelines for acceptance and deposit of monies. A management handbook for collections has been completed and will be used in field evaluations.

In FY 1990, two additional studies will be completed, a penalties study and a valuation study. These are expected to result in both improved processing and significant cost savings.

Fines, Penalties & Forfeiture

Current objectives of the Fines, Penalties, and Forfeiture (FP&F) program are to enhance the national FP&F automated systems, standardize FP&F field practices and procedures. These changes are expected to result in the prompt collection of fines, penalties, and liquidated damages. Automating the FP&F workload has provided consistent, legally sufficient notices to violators and helps ensure prompt action on cases by facilitating inquiries on case status. The FP&F module contributes needed information about broker, importer, and surety performance. Revised procedures and automated processing of no file/late file cases have been implemented. Continuing efforts to collect debts, such as surety and principal sanctions, reduce case backlogs while automation has provided the capability to process cases in a timely manner. A major systems redesign is underway to develop an integrated seizure case and seized property processing system that enhances Customs processing of penalties and liquidated damages cases.

Entry Simplification

Entry simplification was completed in 1987, streamlining and standardizing entry processing. Currently, entry simplification "2" is an attempt to forge ahead, to evaluate and determine the areas and issues that require further national direction.

Paperless Entry Initiatives

Customs revolutionized communications with the Federal agencies with whom we share regulatory responsibility. By replacing redundant agency forms wherever possible with the standard consumption entry form, Federal agencies receive the same information, yet the

importers' reporting burden has been significantly reduced. The project includes the establishment of electronic enhanced communications that relieve agencies of many repetitive reporting and tracking requirements. ABI filers will be relieved of the responsibility of submitting separate documentation to any Federal agency that agrees to this method of communication.

Automated Commercial System (ACS)

The Automated Commercial System (ACS) is the comprehensive tracking, controlling, and commercial operations processing system of the U.S. Customs Service. ACS became operational in 1984, and since that time, Customs productivity has increased over 10 percent each year. Similar gains are expected in the future as current features are expanded, and new capabilities are added.

The Automated Broker Interface (ABI) is an integral part of ACS that permits customs brokers and importers to transmit and receive electronic information pertaining to merchandise being imported into the United States between private sector and Customs computers. Information received via ABI is more accurate and timely, and allows Customs to provide improved and efficient service to the import trade. Currently, over 80 percent of all entry summaries are transmitted via ABI, and growth is expected to continue. The success of this program is an excellent example of cooperation between government and the private sector.

Over 60 percent of inward ocean bill of lading volume is now being captured electronically via the Automated Manifest System (AMS). AMS provides the essential interface which promotes paperless processing, while providing enhanced enforcement and audit capabilities. AMS is currently operational in 71 U.S. ports with 39 carriers participating. Further expansion of this program is planned during FY 1990 and FY 1991.

Air Manifests

An Automated Manifest System (AMS) for air carriers is currently in a pilot test at JFK Airport in New York. Air AMS will facilitate processing of air cargo through Customs, resulting in faster release of merchandise. In 1990, the system will be opened up to all automated carriers, with further expansion continuing through 1991.

Foreign Trade Zones

A Foreign Trade Zone module is under development and scheduled to be operational during 1991. It will provide standardization and uniformity for the continuous monitoring of zone admissions, activities and departures and automated support for the audit inspection program, while eliminating massive amounts of paper documents.

Warehouses

Analysis, design and development of a Warehouse Module will begin during the last quarter of 1990. This module will be a fully integrated on-line automated inventory control system for bonded warehouse transactions. The entire transaction will be paperless, supported by a uniform processing methodology for tracking warehouse merchandise through the 5 year period.

General Order Merchandise

Design and development of the General Order module will begin in 1991. It will provide an on-line capability to record, retrieve and update all records associated with general order merchandise transactions. The introduction of automated methods and controls to this process will benefit both Customs and the trade community through uniform processing, ready access of data, accurate recording of liens, timely disposal of expired General Order lots, and a vastly improved file structure for audit purposes.

Railroads

A planned AMS system for rail carriers will include that highly automated industry within the Customs network of automated processing. We foresee a strong link between the automated ocean carrier and the automated rail carrier via the carriage of in-bond cargo. Development is planned to start in FY 1991.

Quota Processing

The use of ABI, AMS, and our automated collection procedures lead to another innovation, quota processing on a 24-hour, 7 day-a-week basis. Under specific conditions, paperless processing without import specialist review will be possible and the processing of quota transactions around the clock will be possible.

Line Release

The Line Release System is currently operational at 41 sites on the Northern and Southern borders, and is processing 1.5 million releases annually. Bar code tickets which identify low-risk, repetitive shipments are read into a personal computer located at the inspection station. The benefit of this system is the expedited release at the primary truck booth eliminating the need for trucks to report to cargo offices. Since Customs has already determined the low-risk status of these importations, Line Release also eliminates the need for selectivity processing. Line Release will be implemented at four additional sites during FY 1990, and the equipment has been ordered that will enable rail processing at existing sites. Customs is also considering expansion of Line Release processing to airports, courier hubs and seaports.

During 1990 and 1991, ACS Cargo Selectivity processing will be expanded to Northern Border locations. This will allow Customs to be able to fully and uniformly enforce trade and marking initiatives, provide the Bureau of the Census with uniform trade statistics data and identify shipments which originated overseas and are in transit through Canada.

Anti-Dumping

The Anti-Dumping/Countervailing Duty (AD/CVD) module provides a case reference database, and includes reports to the Department of Commerce which replace manual reporting. This system allows better tracking, resulting in improved enforcement of AD/CVD provisions. This project is currently a pilot program in several locations. Nationwide implementation is scheduled for early 1990. A second enhancement is in the design phase.

Further expansion of the paperless master in-bond procedure is planned during FY 1990-1991. AMS carriers can transmit in-bond data electronically via AMS to take control of in-transit shipments from the port of unloading to port of destination. Since the movement of accountability, and disposition of the merchandise is recorded and tracked within AMS, the need for paper documentation is obviated.

Collections and Deposits

In conformance with the Federal Managers Financial Integrity Act (FMFIA), the ACS Finance system has recently been through a massive overhaul of its collection and deposit processing. Work on improving accounts receivable balancing, deposits in transit, and

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untimely deposit reports is currently underway. Other improvements planned include tracking of serially numbered forms to individual inspectors, a revised debit voucher process, and a replacement harbor maintenance fee system that will use a bank lockbox mechanism.

The Automated Clearing House (ACH) is an electronic payment mechanism that allows the payor to pay duties, taxes, and fees. It replaces the manual paper check method and is the preferred payment method for ABI filers. The system became operational in January 1990. Plans are currently underway for an expansion of the ACH capability to allow the payment of Customs bills. An improved mail entry collection system is being developed for implementation in late 1990.

Protests

Enhancements to the current protest module will provide the ABI filer with the ability to query protested entry information and initiate protests electronically. Implementation is scheduled for late 1990.

Informal Entries

During 1990, Customs will process commercial informal entries and apply cargo selectivity criteria. This will further facilitate the movement of cargo and allow Customs to target high-risk cargo for examination.

EDIFACT

Customs offers an alternative computer syntax to its proprietary ABI format for transmitting entry, entry summary and invoice data - EDIFACT, the Electronic Data Interchange for Administration, Commerce and Transport, a United Nations standard. EDIFACT has already been tested by both Customs and some filers. In the second quarter of 1990, EDIFACT testing will continue, and the program will then be used operationally to create the same paperless environment established with the existing Automated Invoice Interface program. Having this protocol in place will give U.S. Customs the capability to exchange data with internationally based importers and other governments.

Commercial Fraud

The business climate is continuing to present Customs with an increased commercial fraud threat. Prohibited merchandise continues to enter U.S. commerce through the presentation of false documentation upon entry, utilizing counterfeit visas and export licenses, the use of third countries as transshipment points, and unintentional misdescription and misclassification.

Customs will continue to give commercial fraud activities a high priority. The shift in recent years of resources to significant fraud investigations has produced excellent results in terms of financial gains to the government as well as prosecution of significant criminal cases. Domestic industries have been protected from unfair and illegal international trade practices and the federal government has received substantial monetary returns from criminal fines and civil penalties. We will continue our multi-disciplined fraud teams, utilizing the expertise of Special Agents, Import Specialists, Inspectors, Regulatory Auditors, Legal Counsel, and technical staff. High-risk commodities such as textiles, wearing apparel, steel, coffee, and electronics will continue to be targeted, as will the detection of copyright and trademark violations. Increased prosecution and penalties will play a major role in insuring that lawful revenues are collected and that the integrity of trade agreements is maintained.

The problem of transshipment continues to concern us from both the "traditional" revenue-oriented perspective and our trade policy approach. Transshipment of goods can occur for practically any fraudulent purpose, and is generally accompanied by falsification of country of origin. Some examples of transshipment schemes include:

- o Transshipment to obtain a free or reduced rate of duty, for example, a duty rate for a U.S. special treatment program (e.g., via Canada under the U.S. - Canada Free Trade Agreement, through General Systems of Preference (GSP) or Caribbean Basin countries, or via Israel);
- o Transshipment to avoid anti-dumping and countervailing duties;
- o Transshipment to evade quantitative restrictions (either quotas or Voluntary Restraint Agreements (VRAs); and,

- o Transshipment to violate U.S. foreign policy embargoes (i.e., goods of North Korean, Vietnamese, Kampuchean, Cuban, Nicaraguan, Libyan, Iranian, or South African origin being passed off as products of other countries).

In addition, revenue losses are sustained due to undervaluation and the shipment of excess merchandise not declared upon entry. Customs is proposing to concentrate resources on cases with high expectation of major revenue recoveries and enforcement of trade protection laws.

The Commercial Fraud Enforcement Center (CFEC) at Customs Headquarters, which consists of Import Specialists, Special Agents, Intelligence Analysts, and Inspection and Control liaison officials, provides the bridge between the various operational programs within Customs and actual fraud investigations. When there is a threat or an allegation that merchandise may be entering the United States which is not in compliance, but no actual fraud investigation has been initiated, the CFEC insures that the proper field officers are notified of the threat in order for them to take appropriate action.

Selectivity

Continued efforts to further enhance and expand other existing automated systems, such as national summary selectivity and the import specialists team management or holding code module, will also continue in the next year. The first phase of national summary selectivity was implemented in September 1988. Total completion entails three additional phases. The second phase now practically completed and due for total completion in the first half of 1990, is the actual input of data from national summary selectivity results, such as the building of national summary selectivity history files and the capability to update and verify cargo selectivity discrepant records to reflect import specialist actions. The third phase is the automatic feedback of processing results which links several databases to the national summary selectivity history files. The fourth phase allows for the automated analysis and utilization of the summary history files to add to or update the selectivity criteria database.

U.S./Canada Free Trade Agreement

The U.S./Canada Free Trade Agreement (FTA) which was implemented in 1989, created the world's largest free trade area. It is the most historic, far-reaching trade agreement ever implemented, breaking new ground in removing barriers to trade in areas of tariffs, investments, services, agriculture, and business travel. In FY 1990 and 1991, we will continue implementation of this agreement and phase-in user fee reductions and accelerated duty reductions agreed upon by both nations.

Regulatory Audit

The use of Regulatory Auditors is a key element in our multidiscipline approach to controlling commercial activities. The Office of Regulatory Audit is staffed by professional auditors located in 25 cities nationwide. We are using innovative, automated targeting and planning procedures to improve productivity in the many different areas of audit responsibility. One of the innovative initiatives is the development of a computer Audit Specialist (CAS) position within the Customs Service. The CAS is a professionally trained and Customs-experienced auditor who is exposed to a rigorous 15 week course of computer training. After training, the CAS is able to utilize computer systems of auditees to facilitate and expedite the audit work. In an electronic environment, the CAS is one of the most capable professionals Customs can utilize to carry out its revenue protection responsibilities. As revenue enhancers, Regulatory Auditors produced in excess of $25 per $1 in investment in commercial fraud audits in FY 1989.

Intellectual Property Rights and Trademarks

Customs can help prevent the loss of American profits caused by unfair trade practices, particularly the infringement of intellectual property rights. Infringement is not just a domestic problem. For instance, an International Trade Commission report last year estimated that U.S. companies lose somewhere between 43 to 63 billion dollars per year because of inadequate foreign protection of intellectual property rights. Much of this infringing merchandise makes its way to our borders, and Customs is in the unique position to prevent these illegal importations.

Customs protects trademarks, trade names, and copyrights that have been recorded with Customs under Part 133 of the Customs regulations. A similar recordation scheme for semiconductor chip masks has just been published for comment in the Federal Register and

will be implemented soon. We also enforce exclusion orders, or seizure and forfeiture orders, issued by the International Trade Commission under Section 337 of the Tariff Act of 1930, which are issued as a remedy against the importation of goods constituting an unfair trade practice. These orders are generally used to prevent the importation of goods that infringe upon U.S. patent rights.

In the absence of an ITC order directing exclusion, seizure or forfeiture, Customs can still be of assistance. Under Section 12.39a of the Customs regulations, a patent owner may request a survey to assist in taking appropriate private action against infringers. The survey will provide the patent owner with the name and address of an importer of merchandise which appears to infringe a registered patent.

Customs efforts to protect intellectual property rights have been very successful in the past. The Office of Commercial Fraud Enforcement keeps a list of IPR seizures. During FY 1989 Customs seized over $47 million worth of infringing goods. Our laboratories, which are instrumental in our efforts, test over 200 electronic samples per month for infringement. The Office of Regulations and Rulings issues over 200 intellectual property rights cases per year.

In order to prepare for the expected increase in concern over the protection of intellectual property rights, Customs is installing new equipment to assist in our IPR efforts. Included are electron microscopes to closely examine semiconductor chips. This equipment is essential given the current level of technology involved in computer patent and copyright cases. We are also planning an automated retrieval system designed to provide ports with on-line access to copyright, trademark, trade name and mask work recordations. Customs recently formed the Intellectual Property Task Force to coordinate our IPR efforts.

Customs Field Laboratories

As part of Customs overall enforcement effort, Customs field laboratories have significantly expanded their roles in supporting investigations of commercial fraud, in providing analytical data needed to determine admissibility and assess the proper duty of imported merchandise, and in conducting effective forensic investigations. Customs laboratory analysts routinely testify in court concerning laboratory findings which must reflect the state of the art in analytical technology. Significant progress was made in FY 1989 toward updating and replacing obsolete laboratory instrumentation and a major thrust

during FY 1990 and FY 1991 will be to apply the sophisticated instrumentation needed to provide protection of intellectual property rights. Another top priority of the laboratory system will be to develop new laboratory methodology to accommodate the Harmonized Tariff Schedules which could be adopted as international standards. In a trade sensitive world, a particularly critical issue for the laboratories is the determination of country-of-origin of various commodities. In the coming decade, the array of embargoes, trade preferences, quotas, and duty rates will continue to pose new challenges for the labs in determining country-of-origin using methodology truly on the frontiers of science.

Cargo Processing

Customs continues to streamline its cargo processing. These efforts are aimed at facilitating the flow of legitimate cargo through our air and seaports while focusing on suspect shipments. As the volume of trade increases, criteria must be developed and disseminated to inspectional personnel so that rapid, yet effective, determinations can be made. For example, Customs inspectors select cargo shipments for intensive examination based on the country of origin, type of commodity, or the importer of record. This approach has been enhanced by continuing to refine the cargo selectivity system in the Automated Commercial System. The improvement of entry documents, as well as the development and implementation of the ACS Line Release System along our land borders, will contribute substantially to our ability to facilitate the entry of merchandise without deterioration of our enforcement efforts.

With the implementation of Electronic Entry Processing (EEP), we will also commence testing of predictable release times for electronic entry filers. This enhancement will reduce cargo delay times at the docks, reduce importer's costs, and provide increased uniformity in cargo processing with Customs. Initiation of EEP will also improve uniform service-wide cargo processing procedures in Customs. These procedures will assure standardization within every port throughout the Customs Service.

Contracting Out and Productivity Savings

Customs will be conducting A-76 studies of commercial alternatives to its own provision of service with the goal of reducing costs. Customs will be reviewing several areas for possible contracting-out for services. Among these areas are input of data for automated

systems and clerical work for non-sensitive positions. Customs will also achieve productivity savings from the Automated Commercial System through increased use of the Automated Broker Interface and other ACS modules.

Summary

In FY 1990 and 1991, Customs will focus heavily on innovative commercial processing techniques. Customs emphasis will be on the modernization of merchandise processing. We will continue long-term efforts to achieve maximum levels of uniformity. We will continue our multidisciplinary fraud teams, assisted by state-of-the-art technology. High-risk commodities such as textiles, steel, coffee, and electronics will continue to be targeted, as will the detection of copyright and trademark violations. We will continue efforts to modernize the vessel entry and clearance navigation laws which date back to the Acts of 1793 and 1799; review the recent user fee statutory changes to determine required regulation amendments; determine the regulatory changes relating to carriers; continue assessment of the applicability of the coast-wide laws to the outer continental shelf in light of strong interest in this subject; and establish interpretive guidelines with respect to the new statutory penalty provisions relating to drawback. Furthermore, Customs will continue to focus its audit capabilities on fraud detection and vigorously pursue revenue recoveries.

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DEPARTMENT OF THE TREASURY

UNITED STATES CUSTOMS SERVICE

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the United States Customs Service, including purchase of up to [one thousand] 1,000 motor vehicles [of which 960 are for replacement only], including [nine hundred and ninety] 990 for police-type use and commercial operations; hire of [passenger] motor vehicles; not to exceed [$10,000] $20,000 for official reception and representation expenses; and awards and compensation to informers, as authorized by any Act enforced by the United States Customs Service; [$1,059,634,000] $1,120,086,000, [of which up to $7,000,000 shall be available for the Interagency Border Inspection System, and] of which such sums as become available in the Customs User Fee Account, except sums subject to section 13031(f)(3) of the Consolidated Omnibus Reconciliation Act of 1985, as amended (19 U.S.C 58c(f)(3)), shall be derived from that Account; of the total, not to exceed $150,000 shall be available for payment for rental space in connection with preclearance operations, [and] not to exceed $4,000,000, to remain available until expended, for research, and not to

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exceed $3,395,000, to remain available until expended, for renovation and expansion of the Canine Enforcement Training Center: Provided, That uniforms may be purchased without regard to the general purchase price limitation for the current fiscal year: Provided further, that none of the funds made available by this Act shall be available for administrative expenses to pay any employee overtime pay in an amount in excess of $25,000: Provided further, that the Commissioner or his designee may waive this limitation in individual cases in order to prevent excessive costs or to meet emergency requirements of the Service [: Provided further, That none of the funds made available by this Act may be used for administrative expenses in connection with the proposed redirection of the Equal Opportunity Program: Provided further, That the United States Customs Service shall hire and maintain an average of not less than 16,976 full-time equivalent positions in fiscal year 1990, of which a minimum level of 10,385 full-time equivalent positions shall be allocated to commercial operations activities, and of which a minimum level of 930 full-time equivalent positions shall be allocated to air interdiction activities of the United States Customs Service: Provided further, That no funds appropriated by this Act may be used to reduce to

single eight hour shifts at airports and that all current services as provided by the United States Customs Service shall continue through September 30, 1990: Provided further, That not less than $500,000 shall be expended for additional part-time and temporary positions in the Honolulu Customs District]. (Treasury Department Appropriations Act, 1990.)

[To fight the war on drugs, an additional amount of $18,000,000, of which $15,000,000 shall be available to undertake investigations to counter drug-related money laundering or other law enforcement activities, and of which $3,000,000 shall be available to increase the air interdiction program staffing level to 960 permanent full-time equivalent positions: Provided, That none of the additional funds shall be made available for the establishment of the Financial Crimes Enforcement Network without the advance approval of the House and Senate Committees on Appropriations.] (Department of Transportation and Related Agencies Appropriations Act, 1990.)

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DEPARTMENT OF THE TREASURY

UNITED STATES CUSTOMS SERVICE

SALARIES AND EXPENSES

Justification of Language Change

Thirty new vehicles are requested for additional Organized Crime Drug Enforcement Task Force (OCDETF) staffing in FY 1991.

With the exception of special funding in FY 1989 for the Customs Cooperation Council meeting, Customs allocation for representation funds has remained at $10,000 since FY 1985. During this period, basic representation costs have risen considerably because of inflation and Customs continuing increase in international activities. Representation funds in the amount of $20,000 are requested to enable Customs to maintain effective representation in international programs.

No year funding is requested to renovate and expand the Canine Enforcement Training Center for several reasons: establishing contracts for the full project is expected to result in reduced costs; no-year funds will allow Customs to establish and complete this project as a continuous project rather than in the piecemeal fashion it has been built and repaired in the past; and no-year funding will accommodate a construction schedule necessary to fit around an ongoing training program.

Language concerning redirection of the Equal Employment Opportunity Program is proposed for deletion since Customs has no plan or intention of carrying out a redirection of the program.

Finally, language imposing FTE staffing floors is proposed for deletion as it unduly restricts Customs management in its allocation of resources.

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United States Customs Service, Salaries and Expenses

SELECTED WORKLOAD DATA
(in thousands)

Activities and Principal Workload Factors	FY 1989 Actual	FY 1990 Authorized	FY 1991 Estimate	Percent Increase or Decrease (1991 over 1990)
1. Processing of arriving persons and cargo:				
a. Formal entries accepted	8,911	9,361	9,723	3.87%
b. Carriers of persons and merchandise arriving from foreign countries	114,994	120,169	125,576	4.50%
c. Persons arriving from foreign countries.	345,176	416,603	421,736	1.23%
d. Backlog of unliquidated entries	1,577	1,609	1,641	2.00%
e. Mail packages received	55,531	56,642	57,774	2.00%
f. Mail packages examined	3,882	3,959	4,039	2.00%
g. Mail entries written	885	903	921	2.00%
h. Merchandise examined (other than mail)	8,282	8,448	8,617	2.00%
2. Investigations of violations of Customs and related laws and regulations:				
a. Investigations completed	36.9	38.0	39.1	2.89%
b. Investigations open September 30	48.0	49.4	50.9	3.04%

Note: Puerto Rico and Virgin Islands excluded.

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United States Customs Service, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full Time Equivalent Positions)

Customs Programs	Actual 1989	Estimated 1990	Estimated 1991	Increases/Decreases for 1991: Total Changes	Program Changes	Other
Inspectors	5,059	5,447	5,524	77	77	0
I&C Program Support (Includes Aides)	820	992	962	(30)	5	(35)
Import Specialists	1,094	1,104	1,084	(20)	(20)	0
Laboratory	108	114	112	(2)	(2)	0
T&T Program Support (Includes Entry Clerks)	1,887	1,780	1,694	(86)	(23)	(63)
Investigations Agents	1,808	1,373	1,211	(162)	(142)	(20)
Investigations Program Support	309	306	363	57	(4)	61
Aviation Interdiction Support	742	876	854	(22)	(82)	60
Investigators/Patrol Officers	991	1,116	1,011	(105)	(105)	0
TI Program Support	73	117	115	(2)	(2)	0
Intelligence Employees	364	275	269	(6)	(6)	0
Internal Affairs Employees	254	265	281	16	16	0
Enforcement Support	345	332	326	(6)	(6)	0
Operational Support	1,016	901	895	(6)	(6)	0
Executive Direction & Control	1,036	839	824	(15)	(15)	0
Chief and Regional Counsel	115	106	104	(2)	(2)	0
Subtotal	16,021	15,943	15,629	(314)	(317)	3
Part-time and Temporary Full Time Equivalent Positions	685	720	720	0	0	0
Total Full Time Equivalent Positions	16,706	16,663	16,349	(314)	(317)	3

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.S. Customs Service, Salaries and Expens

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the U.S. Customs Service proposes the following adjustments in FY 1990 spending (000):

Object Classification	Revised President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
11.9 Total Pers. Comp. ..	552,287	13,830	12,595	578,712
12.0 Total Benefits	121,775	4,621	2,913	129,309
13.0 Benefits Form. Pers.	92	(1)	109	200
21.0 Total Travel	41,802	1,695	(13,757)	29,740
22.0 Total Transportation	5,187	308	249	5,744
23.1 GSA Rent	81,570	110	867	82,547
23.2 Other Rent	5,465	181	2,994	8,640
23.3 Total Comm. & Util.	42,005	(321)	0	41,684
24.0 Printing	3,460	(21)	521	3,960
25.0 Total Other Services	112,791	5,896	3,404	122,091
26.0 Total Supplies	18,767	245	(3,835)	15,177
31.0 Total Equipment	45,888	7,142	(6,050)	46,970
32.0 Land & Structures ..	0	0	0	0
33.0 Investments & Loans	0	0	0	0
41.0 Grants, Subsidies ..	0	0	0	0
42.0 Insurance Claims ...	401	(6)	0	395
44.0 Refunds	0	0	0	0
TOTAL	1,031,490	33,679	0	1,065,169
Activity				
Inspection & Control	128,402	2,426	549	131,377
Tactical Interdiction ...	153,099	13,472	127	166,698
Investigations	147,364	12,677	(1,287)	158,754
Commercial Activities ...	602,625	5,104	611	608,340
TOTAL	1,031,490	33,679	0	1,065,169

U.S. Customs Service, Salaries and Expenses

Explanation of Congressional Action

The FY 1990 Treasury Appropriation (P.L. 101-136) and the FY 1990 Transportation Appropriation (P.L. 101-164) included additional funds above the original FY 1990 President's Budget. An explanation of these changes follows:

- Money laundering ($18,000,000 and 100 FTE) - funding for additional money laundering investigations and for additional equipment to support identification of illegal unreported exports of currency.

- Increased air program staffing ($13,844,000 and 149 FTE) - increased air program staffing to provide crews for additional aircraft funded in fiscal years 1989 and 1990.

- Interagency Border Inspection System - (net increase of $3,000,000) funding provided for development of joint Customs Service/Immigration and Naturalization Service automated system for processing travellers at airports and land borders.

- Restoration of commercial activities staffing ($14,300,000 and 396 FTE) - restored the proposed staffing reduction in commercial activities.

- Transfer from Department of Defense ($2,500,000).

In addition, GRH reductions of $14,965,000 reduced funding levels in all programs based on an across-the-board reduction of 218 FTE.

Explanation of Reprogrammings

- Resources were reprogrammed between object classes to provide funding for increased pay and benefits costs.

- Absorption of increased pay and health benefits costs required a reduction of 225 FTE.

U.S. Customs Service, Salaries and Expenses

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

In FY 1991, salaries and expenses funding requirements for the U.S. Customs Service are projected to be $1,120,086,000. Total increases of $100,362,000 are offset by $45,445,000 in program reductions and nonrecurring expenses; resulting in a net increase of $54,917,000 over the FY 1990 level of $1,065,169,000. In addition, total increases of 377 FTE positions are offset by a base cut of 538 FTE positions to offset pay and other absorptions, a transfer to the Department of Justice of $5,316,000 and 55 FTE positions, and a reduction of 98 FTE positions resulting from A-76 savings, resulting in a net decrease of 314 FTE positions from the FY 1990 staffing levels.

PROGRAM CHANGES

Total Requested Program Changes $743,000
-317 FTE Pos.

The program changes requested for FY 1991 will improve internal controls, increase canine teams by 23 and improve the training facility, continue expansion of the money laundering program, increase SW border inspections, and continue development of the Automated Commercial System. Program decreases will occur as a result of program reductions to offset absorptions of unfunded pay and benefits costs and additional unfunded Administratively Uncontrolled Overtime costs, as well as the transfer of $5,316,000 and 55 FTE to the Department of Justice for the Organized Crime Drug Enforcement Task Force (OCDETF) program.

1. Internal Controls $5,200,000
10 FTE Pos.

A program increase of $5,200,000 and 10 FTE positions is requested to continue modifications to the Customs Automated Management Information System and to establish a new office to assure that internal controls are effective. Customs is committed to developing and maintaining sound financial and management systems. The U.S. Customs Service has begun a multiyear program to correct internal control deficiencies and to develop new automated financial and management systems that will incorporate automatic checks and edits to prevent fraud or abuse.

Internal Controls program increase funding, by object class, is as follows:

Personnel Compensation and Benefits	$456,000
Travel and Transportation of Persons	$23,000
Transportation of things	$4,000
Rent	$55,000
Utilities and Communications	$6,000
Printing and Reproduction	$2,000
Other Services	$4,620,000
Supplies and Materials	$5,000
Equipment	$29,000
Total	$5,200,000

2. Canine Teams and Facilities $5,400,000
23 FTE Pos.

A program increase of $5,400,000 and 23 FTE positions is requested for expansion of the current training facility and to establish 23 new canine enforcement teams. The Canine Enforcement Team Program provides a reliable, cost effective and efficient enforcement screening mechanism in support of the overall Customs inspection system. Increased use of Canine Enforcement Teams will result in increased numbers of narcotic and currency seizures. The expansion of the training facility will allow training of 80 additional teams each year, for a total of 200 teams trained each year.

The funding for this program increase by object class is as follows:

Personnel Compensation and Benefits	$805,000
Travel and Transportation of Persons	$162,000
Transportation of things	$59,000
Rent	$127,000
Utilities and Communications	$7,000
Printing and Reproduction	$5,000
Other Services	$3,588,000

Canine teams and facilities program increase funding continued:

Supplies and Materials	$59,000
Equipment	$588,000
Total	$5,400,000

3. Money Laundering $1,574,000
0 FTE Pos.

A program increase of $1,574,000 and 0 FTE positions is requested to continue increasing U.S. Customs efforts to conduct in-depth criminal investigations relating to money laundering schemes and financial crimes. These investigations will focus on criminal elements which cross local, state and international boundaries. The objectives of this project are to fully staff and train essential elements of Customs enforcement personnel to identify and destroy criminal enterprises who conduct illegal activities and launder profits to the detriment of the United States and other Governments.

The funding for this program increase by object class is as follows:

Other Services	$50,000
Equipment	$1,524,000
Total	$1,574,000

4. Increased SW Border Inspections $10,000,000
175 FTE Pos.

A program increase of $10,000,000 and 175 FTE positions is requested to increase the number of inspections performed at entry ports along the Southwest border. Due to the increasing amounts of drugs entering the country from Mexico, the necessary inspections result in undue delays. This level of staffing will allow Customs to minimize delays and maximize enforcement results through effective use of existing automated systems. The new Inspector positions will concentrate on searches of vehicles and cargo that have been selected for intensive examination by Manifest Review Units and Operational Analysis Staffs.

Increased SW Border Inspections increase funding by object class is as follows:

Personnel Compensation and Benefits	$5,928,000
Travel and Transportation of Persons	$371,000
Transportation of things	$145,000
Rent	$963,000
Utilities and Communications	$99,000
Printing and Reproduction	$40,000
Other Services	$873,000
Supplies and Materials	$183,000
Equipment	$1,398,000
Total	$10,000,000

5. Automated Commercial System $5,300,000
13 FTE Pos.

A program increase of $5,300,000 and 13 FTE positions is requested for continued development and implementation of new modules for the Automated Commercial System (ACS). ACS is the cornerstone of Customs Service long-range plans to modernize and automate international trade and import practices and reduce the paperwork burden on both Customs and the trade community. Through the increased use of automation, the U.S. Customs Service is developing better and more efficient methods of revenue collection and improving cash flow and other non-tariff controls on trade. These increases will permit Customs to absorb a significant increase in workload without a related increase in staffing due to ACS productivity.

The funding for this program increase by object class is as follows:

Personnel Compensation and Benefits	$701,000
Travel and Transportation of Persons	$30,000
Transportation of things	$5,000
Rent	$72,000
Utilities and Communications	$8,000
Printing and Reproduction	$3,000

Automated Commercial System program increase funding continued:

Other Services	$4,436,000
Supplies and Materials	$7,000
Equipment	$38,000
Total	$5,300,000

6. Program reductions to offset pay costs and other absorptions ..... $-13,131,000
-281 FTE Pos.

Absorption of one half of the FY 1991 pay raise and associated benefits will total $13,131,000. This will require across-the-board reductions of a total of 281 FTE positions from all programs.

Inspection and Control	37 FTE
Tactical Interdiction	45 FTE
Investigations	29 FTE
Commercial Operations	170 FTE

7. Program reductions to offset absorption of AUO costs ..... $-13,600,000
-257 FTE Pos.

Absorption of AUO costs can not be taken without program impacts. For FY 1991, the amount absorbed totals $13,600,000, which will require reduction of 257 FTE positions from the same programs with positions receiving AUO salaries. These programs are:

Tactical Interdiction	142 FTE
Investigations	84 FTE
Commercial Operations (Fraud)	31 FTE

OTHER CHANGES

Total Other Changes $54,174,000
3 FTE Pos.

Subtotal, Maintaining Current Levels and Other Increases $72,809,000
156 FTE Pos.

A. Annualize FY 1990 Money Laundering initiative $5,601,000
96 FTE Pos.

Reflects the annualization costs of the FY 1990 initiative to improve capabilities to trace money laundering.

B. Annualize FY 1990 Air Staffing initiative $5,908,000
60 FTE Pos.

Reflects the costs necessary to provide full staffing for crews for new aircraft purchased in FY 1990.

C. SW Border Facilities $2,248,000

Funds installation of communications and data processing lines and installation of equipment not included as part of the nearly complete GSA renovation of Customs Service SW Border facilities.

D. Increases necessary to maintain current levels $34,320,000

1. January 1990 Pay raise annualization $6,067,000

This amount represents one quarter of the base amount for the January, 1990 3.6% pay raise, which was effective for three-quarters of the year in FY 1990. The amount is for the first quarter of FY 1991 and includes the costs of salaries and benefits and was calculated using the FY 1990 average salary rate with 27% added for benefits.

U.S. Customs Service, Salaries and Expenses

D. Increases necessary to maintain current levels, continued:

2. January 1991 Pay raise annualization $18,460,000

This amount reflects the increased costs of salaries and benefits for three quarters of the year in FY 1991 for a proposed FY 1991 3.5% pay raise. The amount was calculated using the FY 1990 average salary rate with 27% added for benefits.

3. Increased Costs for EX/SES pay raise (P.L. 101-194) $648,000

This amount reflects the increased costs of salaries and benefits for increases pursuant to P.L. 101-194. The amount, for 55 employees for three quarters of the year in FY 1991, was calculated using an average salary rate, with 27% added for benefits.

4. Increased cost of Administratively Uncontrollable Overtime (AUO) .. $13,600,000

During FY 1990, AUO will be compensated at a maximum rate of 25 percent of a GS 10/1 salary for special agent personnel. With the passage of Public Law 101-173 the AUO paid to special agents will be equal to 25 percent of an agent's actual rate of pay. This Act will go into effect after September 30, 1990. The amount was derived from calculations of projected increases in AUO above the previous limits as paid to the 2,953 agents eligible, with related benefits increases added.

5. Additional compensable day, compensation and benefits $2,592,000

This amount reflects the costs of salaries and benefits for one additional compensable day in FY 1991. The amount was calculated based on the average cost of pay and benefits for a single day.

U.S. Customs Service, Salaries and Expenses

D. Increases necessary to maintain current levels, continued:

6. Increased cost of Health Insurance $4,224,000

The amount was calculated based on an Office of Personnel Management (OPM) projection of a 15% increase in health benefits costs over FY 1990.

7. Increased cost of Workers Compensation $1,226,000

The estimated cost of Workmen's compensation will rise by $1,226,000 in FY 1991 based on billing estimates received from the Department of Labor.

8. Increased costs of other employee benefits costs $1,183,000

The deflator of 4.2% has been applied to the remainder of FY 1990 benefits costs.

9. Increased cost of travel $1,587,000

This increase includes the change in costs from FY 1990 to FY 1991 for the following requirements:

Per diem costs (6.5%)	792
GSA Motor pool (6.5%)	174
All other travel (4.2%)	621

10. Increased costs of transportation of things $241,000

The amount was derived by applying the deflator of 4.2% to the FY 1990 transportation costs.

D. Increases necessary to maintain current levels, continued:

11. Increased costs of rent, communications and utilities $1,301,000

This increase includes the change in costs from FY 1990 to FY 1991 for the following requirements:

GSA Rent (4.4%)	3,268
Other Rent (4.4%)	380
DTS	-995
CDN (3.3%)	568
FTS	-2,926
NCS-NLP	31
All other comm. & util. (4.2%)	611

12. Increased costs of printing and reproduction $277,000

The Government Printing Office projects a 7.0% increase for printing and reproduction costs in FY 1991. The amount was derived by applying the deflator of 7.0% to the FY 1990 printing and reproduction costs.

13. Increased costs of other services $5,367,000

This increase includes the change in costs from FY 1990 to FY 1991 for the following requirements:

GSA Payments (6.5%)	443
TPIS/PERMITS/TIMIS	348
All other services (4.2%)	4,576

14. Increased costs of supplies and materials $655,000

Subscription costs are expected to rise by 8%, or $38,000. The deflator of 4.2% has been applied to the FY 1990 costs of other supplies and materials, which are expected to rise by $618,000.

U.S. Customs Service, Salaries and Expenses

D. Increases necessary to maintain current levels, continued:

15. Increased costs of equipment $2,067,000

GSA estimates a 5% increase for vehicle purchases in FY 1991, which are expected to rise by $591,000. The deflator of 4.2% has been applied to all other FY 1990 equipment costs, which are expected to rise by $1,476,000.

Subtotal, Nonrecurring costs and savings ..... $-13,398,000
-98 FTE Pos.

1. Nonrecurring Costs ..... $-12,567,000

Nonrecurring costs are primarily those first year costs in FY 1990 from new hires, such as equipment and training, consisting of $5,614,000 from the Cargo Examination initiative, $4,374,000 from the Money Laundering initiative and $79,000 from an adjustment from a FY 1990 sequester recalculation. In addition, $2,500,000 is included for a one-time transfer from the Department of Defense.

2. Savings ..... $-831,000
-98 FTE Pos.

Productivity savings consist of $831,000 and 98 FTE positions identified as A-76 savings.

Transfers .....$-5,316,000
-55 FTE Pos.

1. Transfer of OCDETF resources to the Department of Justice ..... $-5,316,000
-55 FTE Pos.

$5,316,000 and 55 FTE positions associated with the Organized Crime Drug Enforcement Task Force (OCDETF) will be transferred from the Investigations activity to the Department of Justice. Customs will be reimbursed an additional 55 FTE by the Justice Department for OCDETF program work.

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U.S. CUSTOMS SERVICE, SALARIES AND EXPENSES

STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	17,380	17,304	16,990	(314)
Full Time Equivalent (FTE) Positions	16,706	16,663	16,349	(314)
Object Classification: ($000)				
Personnel Compensation:				
Permanent positions	507,034	533,229	561,662	28,433
Positions other than permanent	10,625	10,141	10,169	28
Other personnel compensation	37,895	33,256	34,145	889
Special personal services payments.	3,172	2,086	953	(1,133)
Total personnel compensation	558,726	578,712	606,929	28,217
Personnel benefits	119,866	129,309	138,829	9,520
Benefits to former personnel	336	200	200	0
Travel and transportation of persons	30,325	29,740	31,038	1,298
Transportation of things	4,700	5,744	6,115	371
Rent, communication and utilities:				
Rental payments to GSA	74,418	82,547	86,402	3,855
Rental payments to others	4,749	8,640	9,025	385
Other rent, comm. and utilities	39,850	41,684	39,411	(2,273)
Printing and reproduction	4,278	3,960	4,234	274
Other services	113,633	122,091	134,418	12,327
Supplies and materials	15,118	15,177	15,901	724
Equipment	59,156	46,970	47,189	219
Land and structures	111	0	0	0
Insurance claims and indemnities	319	395	395	0
Refunds	0	0	0	0
Total obligations	1,025,588	1,065,169	1,120,086	54,917
Unobligated balance lapsing	5,973	0	0	0
Obligations of prior year funds	(1,414)	0	0	0
Total appropriations, proposed authorized level, and budget estimate	1,030,147	1,065,169	1,120,086	54,917

United States Customs Service, Salaries and Expenses

DETAIL OF PERMANENT POSITIONS

	1989 Actual	1990 Authorized	1991 Estimate
Direct Program			
ES	53	55	55
Subtotal	53	55	55
GS/GM-15	336	340	345
GS/GM-14	750	774	808
GS/GM-13	1,906	1,958	2,005
GS-12	2,608	2,367	2,251
GS-11	3,139	3,098	3,038
GS-10	5	5	5
GS-9	4,031	4,246	4,095
GS-8	75	75	75
GS-7	1,682	1,644	1,629
GS-6	677	672	672
GS-5	1,396	1,342	1,282
GS-4	503	509	511
GS-3	116	116	116
GS-2	19	19	19
GS-1	7	7	7
Subtotal	17,250	17,172	16,858
Ungraded	77	77	77
Total (Direct)	17,380	17,304	16,990
Reimbursable Program			
GS/GM-15	2	2	2
GS/GM-14	5	5	5
GS/GM-13	4	4	4
GS-12	4	163	256

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	1989 Actual	1990 Authorized	1991 Estimate
GS-11	41	41	41
GS-10	2	2	2
GS-9	191	191	191
GS-8	1	1	1
GS-7	173	173	173
GS-6	127	127	127
GS-5	13	80	80
GS-4	2	2	2
GS-3	2	2	2
Subtotal	567	793	886
Ungraded	23	23	23
Total (Reimbursable)	590	816	909
Grades Established by the Administrator, AID (75 stat. 450), and country reimbursed programs			
FC-12	4	4	4
FC-11	6	6	6
FC-10	6	6	6
FC-9	3	3	3
Subtotal	19	19	19
Total, permanent positions	17,989	18,139	17,918
Unfilled positions, end of year	(1,136)	(1,648)	(1,417)
Total, permanent employment, end of year	16,853	16,491	16,501

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DETAIL OF AVERAGE GRADES AND SALARIES

	Actual FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES salary	$75,147	$78,200	$92,000
Average GS/GM grade	9.80	9.79	9.82
Average GS/GM salary	$31,700	$32,800	$34,000
Average grade, grades established by Administrator, Agency for International Development (75 Stat. 450)	11.00	11.00	11.00
Average salary (75 Stat. 450)	$56,461	$58,494	$60,540
Average salary of ungraded positions	$23,023	$23,852	$24,700

UNITED STATES CUSTOMS SERVICE, OPERATIONS AND MAINTENANCE

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	0	0	196,728
FY 1990 Appropriations (P.L. 101-164) Enacted in Transportation Bill	0	0	35,800
Adjustments:			
Sequestration (P.L. 99-177)	0	0	(2,165)
FY 1990 Authorized Level	0	0	230,363
FY 1991 Estimate	0	0	143,047

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES

(Dollars in thousands)

	ACTUALS		AUTHORIZED LEVEL		BUDGET ESTIMATE		INCREASE (+) or DECREASE (-) FOR FY 1991					
	FY 1989		FY 1990		FY 1991		TOTAL CHANGES		PROGRAM INCREASES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
1. Operating Expenses		105,017		133,363		143,047		9,684				9,684
2. Capital Procurement		40,859		97,000		0		(97,000)				(97,000)
Unobligated balance available, BOY		(8,540)		(11,927)		(11,927)		0				0
Unobligated balance available, EOY		11,927		11,927		11,927		0				0
Unobligated balance lapsing		0		0		0		0				0
Total appropriation, authorized level and budget estimate	0	149,262	0	230,363	0	143,047	0	(87,316)	0	0	0	(87,316)
Permanent positions	0		0		0		0		0		0	

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UNITED STATES CUSTOMS SERVICE, OPERATIONS AND MAINTENANCE

SUMMARY EXPLANATIONS OF FISCAL YEAR 1991 CHANGES REQUESTED
(Dollars in Thousands)

	Operating Expenses			Capital Procurement			Total		
	Pos.	Avg. Pos.	Amount	Pos.	Avg. Pos.	Amount	Pos.	Avg. Pos.	Amount
Program Increases:									
1.	0	0	0	0	0	0	0	0	0
Total, Program Increases	0	0	0	0	0	0	0	0	0
Other Changes:									
Increases necessary to maintain current levels:									
1. Regular Air Program	0	0	603	0	0	0	0	0	603
2. P-3 O&M	0	0	590	0	0	0	0	0	590
3. Lease Citation Aircraft	0	0	98	0	0	0	0	0	98
4. C-12 King Air O&M	0	0	323	0	0	0	0	0	323
5. Black Hawk Helicopters O&M	0	0	505	0	0	0	0	0	505
6. Citation Aircraft O&M	0	0	358	0	0	0	0	0	358
7. CHET Aircraft O&M	0	0	317	0	0	0	0	0	317
8. OV Aerostats	0	0	1,455	0	0	0	0	0	1,455
9. HCMAD Aircraft O&M	0	0	311	0	0	0	0	0	311
10. C3I O&M	0	0	283	0	0	0	0	0	283
11. HF/SBB O&M	0	0	83	0	0	0	0	0	83
12. UH-1B Refurbishment	0	0	2,214	0	0	0	0	0	2,214
Total, Increases necessary to maintain current levels	0	0	7,140	0	0	0	0	0	7,140

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	Operating Expenses			Capital Procurement			Total		
	Pos.	Avg. Pos.	Amount	Pos.	Avg. Pos.	Amount	Pos.	Avg. Pos.	Amount
Annualization									
1. Annualization increases			8,944			0			8,944
Total, annualization			8,944			0			8,944
Reductions, nonrecurring costs and savings:									
1. C3I	0	0	(5,000)	0	0	0	0	0	(5,000)
2. P3-AEW	0	0	0	0	0	(27,000)	0	0	(27,000)
3. Citation Aircraft	0	0	0	0	0	(70,000)	0	0	(70,000)
4. Phoenix Air Branch	0	0	(600)	0	0	0	0	0	(600)
5. Support Helicopters	0	0	(800)	0	0	0	0	0	(800)
Total, reductions, nonrecurring costs and savings	0	0	(6,400)	0	0	(97,000)	0	0	(103,400)
Total, Other Changes	0	0	9,684	0	0	(97,000)	0	0	(87,316)
Total, increases or decreases compared FY 1990 Authorized Level	0	0	9,684	0	0	(97,000)	0	0	(87,316)

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United States Customs Service, Operations and Maintenance

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

Air interdiction, aimed at reducing the availability of illegal drugs arriving in the United States, is a vital component of the federal war on drugs. Drug smuggling organizations have access to huge sums of money to purchase well-equipped aircraft and sophisticated equipment to evade detection, and to elude interdiction efforts of Customs air units. In order to effectively disrupt this threat, Customs strategy is placing state-of-the-art equipment and to configure these into Air Interdiction Modules that are controlled and directed by a centralized command structure. The equipment and facilities needed to carry out this strategy are obtained through this appropriation in support of the Aviation Program's overall mission and objectives: the detection and apprehension of those involved in the smuggling of contraband by private aircraft; and the provision of assistance to other enforcement efforts of Customs and other agencies in the law enforcement community.

Based on the successful strategy applied in the Southeast, we are establishing air modules along the entire Southern border. The basic premise of the air interdiction module is to provide Customs with the ability to detect, sort, intercept, track and apprehend the air smuggler on an around-the-clock basis.

Aircraft currently operated by Customs include jet interceptors and long-range trackers equipped with radar and infrared detection sensors, high performance helicopters, single and multiengine support aircraft, and airborne detection platforms. Aircraft are obtained through purchase, lease, or military loan and are modified to meet Customs requirements. In addition to airborne radar, radar equipped aerostats provide additional detection and tracking capabilities. Six aerostats are now under development for deployment along the Southwest border. Further, Customs is acquiring and modifying additional Citation II aircraft, which will bring us to the module designed level for ten interceptors.

Based on a Memorandum of Understanding (MOU) between the Customs Service and the Coast Guard, signed in May 1988, Customs aerostat radar system located in the Bahamas was assigned to the Coast Guard. In FY 1989, the two E2C aircraft were returned to the Navy.

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Strategies and Plans

The Aviation Program will emphasize interdiction, which involves exploiting strategic and tactical intelligence for optimum target selections, operation and detection systems, and the actual identification, sorting, tracking and apprehension of suspect aircraft. In addition, Aviation support to marine and land activities will increase, providing additional airborne support to searches, surveillance, and tracking of marine and land targets. The basic tool for achieving these operational strategies is the air module, an operational unit comprised of sufficient resources in the proper mix to effectively control a segment of the border for a specific time. Major components of the modules are: (1) sufficient technically capable aircraft and helicopters for interception, tracking and apprehension, and (2) dedicated airborne support aircraft.

Ultimately, the overall effectiveness of the full Aviation Program is dependent on the Command, Control, Communication, and Intelligence (C3I) system and detection network of airborne and ground-based radars. Customs believes that the continued implementation of strong centralized management of assets and the build-up of C3I centers will result in optimum use and flexibility in the deployment of assets, thereby increasing the effectiveness of Customs response to the dynamic and ever changing smuggling threat. Therefore, Customs air strategy will continue to be directed toward achieving the following objectives:

- nationwide coordination of assets in order to maximize the effectiveness of limited resources;
- continued development and exploitation of an effective tactical and strategic intelligence system, and;
- development of a comprehensive database for threat analyses needed to improve program strategy, plans and tactics.

FY 1989 Strategies

During FY 1989, the Aviation Program accepted delivery of seven NOMAD aircraft, enabling Customs to substantially increase its effectiveness against the marine smuggling threat. In addition, a second modified P-3AEW became operational in April, 1989. Final delivery of additional interceptor aircraft was completed. Operating capability was achieved for the Deming and Yuma aerostat platforms.

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FY 1990 Strategies

The remaining aerostats under development along the Southwest border will become operational. Customs will initiate action to procure and modify ten additional interceptor aircraft and to acquire and modify one additional P-3 to the P-3AEW configuration. Customs has accepted delivery of three new utility helicopters to perform the USCS support mission.

FY 1991 Strategies

Customs will accept delivery of the first two interceptor aircraft procured and modified during FY 1990. The Aviation Program will continue to integrate all newly acquired assets and personnel to enhance all interdiction activities and provide increased support to other facets of Customs interdiction and enforcement operations.

United States Customs Service, Operations and Maintenance

The FY 1991 budget requirement for Operations and Maintenance reflects a net decrease of $87.3 million below the resource levels provided for in FY 1990. The Operations and Maintenance Programs' FY 1990 budget request reflects initiatives to upgrade the Command, Control, and Communications Intelligence Centers (C3I), modify P-3 aircraft, procure Citation aircraft, refurbish support helicopters and relocate the Phoenix Air Branch.

The net decrease of $87.3 million is comprised of the following changes:

-- $7.1 million increase for maintaining current levels;

-- $8.9 million increase for annualization of air assets acquired in FY 1990;

-- $5.0 million decrease for C3I;

-- $27.0 million decrease for P-3 AEW;

-- $70.0 million decrease for 10 Citation aircraft;

-- $0.6 million decrease for Phoenix Air Branch; and

-- $0.8 million decrease for support helicopters.

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DEPARTMENT OF THE TREASURY

UNITED STATES CUSTOMS SERVICE

OPERATION AND MAINTENANCE, AIR INTERDICTION PROGRAM

For expenses, not otherwise provided for, necessary for the hire, lease, acquisition (transfer or acquisition from any other agency), operation and maintenance of aircraft, and other related equipment of the Air Program; [$196,728,000] $143,047,000, to remain available until expended [: Provided, that no aircraft or other related equipment shall be transferred to any Federal agency, Department, or office outside of the Department of the Treasury during fiscal year 1990]. (Treasury Department Appropriations Act, 1990.)

[To fight the war on drugs, an additional $35,800,000, to remain available until expended, for the procurement of interceptor and support aircraft, and to provide for operation and maintenance expenses of these assets to more effectively interdict the illegal importation of drugs into the United States.] (Department of Transportation and Related Agencies Appropriations Act, 1990.)

DEPARTMENT OF THE TREASURY

UNITED STATES CUSTOMS SERVICE

OPERATION AND MAINTENANCE

Justification of Language Change

Deletion of language is proposed for the restrictive proviso which prohibits the transfer of aircraft or equipment of the Department of Treasury.

U.S. CUSTOMS SERVICE, OPERATIONS AND MAINTENANCE

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the U.S. Customs Service proposes the following FY 1990 spending ($000):

Object Classification	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
21.0 Travel and transportation of persons	4,356	0	0	4,356
22.0 Transportation of things	1,339	0	0	1,339
23.1 Rental Payments to GSA	0	0	0	0
23.2 Rental Payments to Others	0	0	0	0
23.3 Communications, Utilities & Misc. Charges	3,926	0	0	3,926
24.0 Printing and Reproduction	0	0	0	0
25.0 Other Services	71,192	35,841	0	107,033
26.0 Supplies and Materials	39,184	11,751	0	50,935
31.0 Equipment	8,131	54,643	0	62,774
TOTAL	128,128	102,235	0	230,363
Activity				
1. Operating Expenses	126,228	7,135	0	133,363
2. Capital Procurement	1,900	95,100	0	97,000
Total, Operations and Maintenance	128,128	102,235	0	230,363

United States Customs Service, Operations and Maintenance

Explanation of Congressional Action

The FY 1990 Treasury Appropriation included additional funding above the President's budget. An explanation of these changes follows:

- o $5.0 million increase for upgrading the C3I centers;
- o $27.0 million increase for modification of P-3 aircraft;
- o $70.0 million increase for purchase and modification of 10 Citation aircraft;
- o $1.8 million increase for refurbishment of support helicopters;
- o $0.6 million increase for relocation of Phoenix Air Branch; and
- o $2.2 million decrease for GRH reductions

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United States Customs Service, Operations and Maintenance

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

In FY 1991, funding requirements for Operations and Maintenance are projected to be $143,047,000. Total increases of $16,084,000 are offset by $103,400,000 in nonrecurring expenses, resulting in a net decrease under the FY 1990 funding level of $87,316,000.

PROGRAM CHANGES

Total Requested Program Changes	$ 0
Total Other Changes	-$87,316
Maintain Current Level	$7,140

Reflects increased costs due to inflationary increases for items such as fuel, equipment and supplies.

1.	Regular Air Program	$603
2.	P-3 O&M	$590
3.	Lease Citation Aircraft	$98
4.	C-12 King Air O&M	$323
5.	Black Hawk Helicopters O&M	$505
6.	Citation Aircraft O&M	$358
7.	CHET Aircraft O&M	$317
8.	SW Aerostats	$1,455
9.	NOMAD Aircraft	$311
10.	C3I O&M	$283

United States Customs Service, Operations and Maintenance

11. HF/SSB O&M	$83
12. UH-1H Refurbishment	$2,214
Increases for annualization This increase reflects the operation of 32 aircraft operating at a total of 6,670 flying hours.	$8,944
Reductions, nonrecurring costs Noncurring one-time expenses of Congressional add-ons.	-$103,400
1. C3I Centers	-$5,000
2. P-3 AEW modification	-$27,000
3. Citation aircraft acquisition	-$70,000
4. Phoenix Air Branch relocation	-$600
5. Refurbishing support helicopters	-$800

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UNITED STATES CUSTOMS SERVICE, OPERATIONS AND MAINTENANCE

STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	0	0	0	0
Full time equivalent (FTE) workyears	0	0	0	0
Object Classification				
Personnel Compensation:				
Permanent positions	0	0	0	0
Positions other than permanent	0	0	0	0
Other personnel compensation	0	0	0	0
Special personal services payments	0	0	0	0
Total personnel compensation	0	0	0	0
Personnel benefits	0	0	0	0
Benefits to former personnel	0	0	0	0
Travel and transportation of persons	2,879	4,356	4,523	167
Transportation of things	383	1,339	1,391	52
Rent, communications and utilities				
Rental Payments to GSA	0	0	0	0
Rental Payments to others	0	0	0	0
Other rent, comm. and utilities	4,438	3,906	4,058	152
Printing and reproduction	0	0	0	0
Other services	75,444	107,033	79,300	(27,733)
Supplies and materials	27,237	50,935	41,179	(9,756)
Equipment	35,490	62,774	12,576	(50,198)
Lands and structures	5	0	0	0
Grants, subsidies and contributions	0	0	0	0
Refunds	0	0	0	0
Total obligations	145,876	230,363	143,047	(87,316)
Unobligated balance lapsing	0	0		
Transferred to other accounts	0	0	0	0
Obligations of prior year funds	0	0	0	0
	0	0	0	0
Total actual obligations, proposed authorized level, and budget estimate	145,876	230,363	143,047	(87,316)

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UNITED STATES CUSTOMS SERVICE, CUSTOMS FORFEITURE FUND

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	0	0	10,000
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill	0	0	5,000
Adjustments:			
Sequestration (P.L. 99-177)	0	0	(145)
FY 1990 Authorized Level	0	0	14,855
FY 1991 Estimate	0	0	14,855

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in thousands)

	ACTUALS		AUTHORIZED LEVEL		BUDGET ESTIMATE		INCREASE (+) or DECREASE (-) FOR FY 1991					
	FY 1989		FY 1990		FY 1991		TOTAL CHANGES		PROGRAM INCREASES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
1. Customs Forfeiture Fund		9,714		14,855		14,855		0		0		0
Unobligated balance available, SOY		0		0		0		0		0		0
Unobligated balance available, EOY		0		0		0		0		0		0
Unobligated balance lapsing		0						0		0		0
Total appropriation, authorized level and budget estimate	0	9,714	0	14,855	0	14,855	0	0	0	0	0	0
Permanent positions	0		0		0		0		0		0	

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Customs Forfeiture Fund

Prior to FY 1985, the costs of handling each Customs seizure were deducted from the proceeds, if any, from the sale of that seizure. However, in instances where proceeds were not sufficient to cover expenses, Customs had to cover the expenses out of its regular operating budget. This situation occurred frequently, and by the time the seized property was forfeited, expenses for storage and other miscellaneous charges exceeded the proceeds of the sale. Moreover, the net proceeds from one sale could not be used to offset the losses incurred from another sale.

To remedy these inadequacies, Congress passed legislation (P.L. 98-573) that authorized Customs to establish a Customs Forfeiture Fund. Seized and forfeited currency often shared with state and local law enforcement agencies and any proceeds beyond the expenses of seizure and forfeiture of merchandise are deposited into this account. In reauthorizing the Forfeiture Fund in the Anti-Drug Abuse Act of 1988 (P.L. 100-690), Congress required all proceeds to be deposited into this fund and provided for the following uses of the fund: (1) all proper expenses of seizures (including investigative costs) or the proceedings of forfeiture and sale; (2) awards of compensation to informers; (3) payments of liens; (4) remission and mitigation expenses; (5) payment of claims of "parties in interest to property disposed"; (6) purchase of evidence; (7) equipment for any vessel, vehicle, or aircraft for law enforcement functions for use by either the U.S. Customs Service or the State and local law enforcement agencies in joint law enforcement operations; (8) reimbursement of private persons for expenses incurred in cooperating with the United States Customs Service in investigations and undercover law enforcement operations; (9) publication of the availability of awards; (10) equipment for state and local law enforcement agencies to be used in joint operations; and (11) payment of overtime salaries, travel, fuel, training, equipment, and other similar costs of State and local law enforcement officers that are incurred in joint law enforcement operations with the U.S. Customs Service.

In addition, the Anti-Drug Abuse Act of 1988 authorized permanent budget authority, limited only by available receipts, for nondiscretionary uses of the fund (i.e., items one through five above). The discretionary uses of the fund (items six through ten) are limited to amounts provided in annual appropriation acts. Further, sharing with state and local law enforcement agencies is accomplished through a separate Asset Sharing Suspense Account. The balance (non-shared assets) is transferred to the Forfeiture Fund.

DEPARTMENT OF THE TREASURY

UNITED STATES CUSTOMS SERVICE

CUSTOMS FORFEITURE FUND

(LIMITATION ON AVAILABILITY OF DEPOSITS)

For necessary expenses of the Customs Forfeiture Fund, not to exceed [$10,000,000] $14,855,000, as authorized by Public Law 100-690; to be derived from deposits in the Fund. (Treasury Department Appropriations Act, 1990.)

[To fight the war on drugs, an additional amount of $5,000,000, to be derived from deposits in the Fund, for authorized law enforcement purposes.] (Department of Transportation and Related Agencies Appropriations Act, 1990.)

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U.S. CUSTOMS SERVICE, CUSTOMS FORFEITURE FUND

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the U.S. Customs Service proposes the following FY 1990 spending ($000):

Object Classification	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
11.1 Full-Time Permanent Positions	0	0	0	0
11.3 Other than Full-Time Permanent Positions	0	0	0	0
11.5 Other personnel compensation	0	0	21	21
11.8 Special personal services payments	0	0	8,077	8,077
11.9 Personnel compensation (Total)	0	0	8,098	8,098
12.1 Civilian personnel benefits	0	0	0	0
13.0 Benefits for former personnel	0	0	0	0
21.0 Travel and transportation of persons	119	0	0	119
22.0 Transportation of things	50	0	0	50
23.1 Rental Payments to GSA	9	0	(9)	0
23.2 Rental Payments to Others	0	0	0	0
23.3 Communications, Utilities & Misc. Charges	0	0	300	300
24.0 Printing and Reproduction	0	0	0	0
25.0 Other Services	4,475	4,855	(8,059)	3,271
26.0 Supplies and Materials	114	0	0	114
31.0 Equipment	2,898	0	0	2,898
32.0 Lands and Structures	0	0	0	0
33.0 Investments and Loans	0	0	0	0
41.0 Grants, Subsidies and Contributions	330	0	(330)	0
42.0 Insurance Claims and Indemnities	0	0	0	0
44.0 Refunds	5	0	0	5
91.0 Unvouchered	0	0	0	0
TOTAL	10,000	4,853	0	14,855

Activity				
Customs Forfeiture Fund	10,000	4,855	0	14,855
TOTAL	10,000	4,855	0	14,855

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UNITED STATES CUSTOMS SERVICE, CUSTOMS FORFEITURE FUND

STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	0	0	0	0
Full time equivalent (FTE) workyears	0	0	0	0
Object Classification				
Personnel Compensation:				
Permanent positions	0	0	0	0
Positions other than permanent	0	0	0	0
Other personnel compensation	0	21	21	0
Special personal services payments	1,225	8,077	8,077	0
Total personnel compensation	1,225	8,098	8,098	0
Personnel benefits	0	0	0	0
Benefits to former personnel	0	0	0	0
Travel and transportation of persons	0	119	119	0
Transportation of things	0	50	50	0
Rent, communications and utilities				
Rental Payments to GSA	0	0	0	0
Rental Payments to others	0	0	0	0
Other rent, comm. and utilities	0	300	300	0
Printing and reproduction	0	0	0	0
Other services	2,287	3,271	3,271	0
Supplies and materials	121	114	114	0
Equipment	6,047	2,898	2,898	0
Lands and structures	0	0	0	0
Grants, subsidies and contributions	0	0	0	0
Refunds	34	5	5	0
Total obligations	9,714	14,855	14,855	0
Unobligated balance lapsing	0	0	0	0
Transferred to other accounts	0	0	0	0
Obligations of prior year funds	0	0	0	0
Total actual obligations, proposed authorized level, and budget est'mate	9,714	14,855	14,855	0

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UNITED STATES CUSTOMS SERVICE, CUSTOMS SERVICES AT SMALL AIRPORTS

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
FY 1990 Appropriation (P.L. 101-136) Enacted in Treasury Bill	30	30	2,175
Adjustments:			
Sequestration (P.L. 99-177)	0	0	(23)
FY 1990 Authorized Level	30	30	2,152
FY 1991 Estimate	30	30	2,152

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in thousands)

	ACTUALS		AUTHORIZED LEVEL		BUDGET ESTIMATE		INCREASE (+) or DECREASE (-) FOR FY 1991					
	FY 1989		FY 1990		FY 1991		TOTAL CHANGES		PROGRAM INCREASES		OTHER CHANGES	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
1. Customs Services at Small Airports..	12	401	30	2,152	30	2,152	0	0		0		0
Unobligated balance available, SOY...		(573)		(661)		(661)		0		0		0
Unobligated balance available, EOY...		661		661		661		0		0		0
Unobligated balance lapsing.....		0		0		0		0		0		0
Total appropriation, authorized level and budget estimate	12	488	30	2,152	30	2,152	0	0	0	0	0	0
Permanent positions	12		30		30		0		0		0	

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User Fees at Certain Small Airports

The Trade and Tariff Act of 1984 (P.L. 98-573) authorized the U.S. Customs Service to charge user fees for services at certain small airports where the volume or value to business is insufficient to justify the availability of Customs services. The user fee is to be equal to the expenses incurred in providing services.

Fees which are collected at each airport are deposited into an account specifically designated for that airport. The funds in the account as provided by appropriation acts, will only be available for expenditures relating to the provision of Customs services at each airport including salaries and expenses of personnel employed to provide such services.

In FY 1991, Customs will continue to provide services for the present 18 designated user fee airports and to most pending applicants, utilizing the Congressionally authorized resources and 30 FTE. Any Foreign Trade Zones co-located with an airport will now be considered to be part of the airport as enacted by P.L. 101-207.

By maintaining an intensified level of inspectional enforcement at these user fee airports, we can reduce a significant portion of the work currently being done at Customs ports of entry. Relocating this work to designated small airports allows inspectional resources to concentrate on pursuing enforcement goals at ports of entry.

DEPARTMENT OF THE TREASURY

UNITED STATES CUSTOMS SERVICE

CUSTOMS SERVICES AT SMALL AIRPORTS

(TO BE DERIVED FROM FEES COLLECTED)

Such sums as may be necessary, not to exceed [$2,175,000] $2,152,000, for expenses for the provision of Customs services at certain small airports or other facilities when authorized by law and designated by the Secretary of the Treasury, including expenditures for the salaries and expenses of individuals employed to provide such services, to be derived from fees collected by the Secretary of the Treasury pursuant to section 236 of Public Law 98-573 for each of these airports or other facilities when authorized by law and designated by the Secretary of the Treasury, and to remain available until expended. (Treasury Department Appropriations Act, 1990.)

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U.S. CUSTOMS SERVICE, CUSTOMS SERVICES AT SMALL AIRPORTS

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request and as a result of other workload and cost changes, the U.S. Customs Service proposes the following FY 1990 spending ($000):

Object Classification	Original President's Budget	+ or - Congressional Action	+ or - Proposed Reprogramming	Proposed Authorized Level
11.1 Full-Time Permanent Positions	1,278	(242)	0	1,036
11.3 Other than Full-Time Permanent Positions	0	0	0	0
11.5 Other personnel compensation	0	0	0	0
11.8 Special personal services payments	0	0	0	0
11.9 Personnel compensation (Total)	1,278	(242)	0	1,036
12.1 Civilian personnel benefits	156	268	0	424
13.0 Benefits for former personnel	0	0	0	0
21.0 Travel and transportation of persons	26	93	0	119
22.0 Transportation of things	65	14	0	79
23.1 Rental Payments to GSA	0	0	0	0
23.2 Rental Payments to Others	13	(13)	0	0
23.3 Communications, Utilities & Misc. Charges	0	0	0	0
24.0 Printing and Reproduction	0	0	0	0
25.0 Other Services	52	179	0	231
26.0 Supplies and Materials	0	12	0	12
31.0 Equipment	0	253	0	253
32.0 Lands and Structures	0	0	0	0
33.0 Investments and Loans	0	0	0	0
41.0 Grants, Subsidies and Contributions	0	0	0	0
42.0 Insurance Claims and Indemnities	0	0	0	0
44.0 Refunds	0	0	0	0
91.0 Unvouchered	0	0	0	0
TOTAL	1,588	544	0	2,152
Activity				
Customs Services at Small Airports	1,588	544	0	2,152
TOTAL	1,588	544	0	2,152

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UNITED STATES CUSTOMS SERVICE, CUSTOMS SERVICES AT SMALL AIRPORTS

STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY, $000)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions	22	30	30	0
Full time equivalent (FTE) workyears	12	30	30	0
Object Classification				
Personnel Compensation:				
Permanent positions	305	1,834	1,834	0
Positions other than permanent	0	0	0	0
Other personnel compensation	0	0	0	0
Special personal services payments	0	0	0	0
Total personnel compensation	305	1,834	1,834	0
Personnel benefits	78	424	424	0
Benefits to former personnel	0	0	0	0
Travel and transportation of persons	6	119	119	0
Transportation of things	9	79	79	0
Rent, communications and utilities				
Rental Payments to GSA	0	0	0	0
Rental Payments to others	2	0	0	
Other rent, comm. and utilities	0	0	0	0
Printing and reproduction	0	0	0	0
Other services	1	231	231	0
Supplies and materials	0	12	12	0
Equipment	0	253	253	0
Lands and structures	0	0	0	0
Grants, subsidies and contributions	0	0	0	0
Refunds	0	0	0	0
Total obligations	401	2,152	2,152	0
Unobligated balance available EOY	(573)	(661)	(661)	0
Unobligated balance EOY	661	661	661	0
Total actual obligations, proposed authorized level, and budget estimate	488	2,152	2,152	0

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United States Customs Service, Customs Services at Small Airports

DETAIL OF PERMANENT POSITIONS

	1989 Actual	1990 Authorized	1991 Estimate
GS/GM-15	0	0	0
GS/GM-14	0	0	0
GS/GM-13	0	0	0
GS-12	0	0	0
GS-11	22	30	30
GS-10	0	0	0
GS-9	0	0	0
GS-8	0	0	0
GS-7	0	0	0
GS-6	0	0	0
GS-5	0	0	0
GS-4	0	0	0
GS-3	0	0	0
GS-2	0	0	0
GS-1	0	0	0
Subtotal	22	30	30
Ungraded	0	0	0
Total permanent positions	22	30	30
Unfilled positions, end of year	(7)	0	0
Total, permanent employment, end of year	15	30	30

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Financial Crimes Enforcement Network (FinCEN)

ANALYSIS OF FISCAL YEAR 1990 AUTHORIZED LEVEL

	Permanent Positions	FTE	Amount ($000)
Authorized level for FY 1990	148	66	13,387
Estimate for FY 1991	148	148	16,188

DIGEST OF FISCAL YEAR 1991 BUDGET ESTIMATES BY ACTIVITIES
(Dollars in Thousands)

	Actuals		Authorized Level		Budget Estimate		Increase (+) or Decrease (-) for FY 1991					
	FY 1989		FY 1990		FY 1991		Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Financial Crimes Enforcement Network	0	0	66	13,387	148	16,188	82	2,801	0	1,574	82	1,227
Total appropriation, authorized level and budget estimate	0	0	66	13,387	148	16,188	82	2,801	0	1,574	82	1,227
Permanent positions	0		148		148		0		0		0	

NOTE: Positions and FTE do not include 48 Special Agents on non-reimbursable details to FinCEN.

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SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FY 1991
(Dollars in Thousands)

	Pos.	FTE Pos.	Amount
Program Changes:			
1. ADP Initiatives	0	0	1,574
Total, Program Changes	0	0	1,574
Other Changes:			
1. Annualizations	0	82	6,894
2. Nonrecurring Costs	0	0	(5,667)
Total, Other Changes	0	82	1,227
Total, Increases or Decreases in FY 1991 Compared with Proposed FY 1990 Authorized Level	0	82	2,801

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Financial Crimes Enforcement Network (FinCEN)

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

General Statement

In July 1989, in response to a National Drug Policy Board-directed study of money laundering law enforcement problems, as well as investigative successes resulting from shared intelligence and analysis, the Treasury Department developed a comprehensive money laundering strategy. The strategy recognized that money is the motive and power of all criminal organizations and, ultimately, one of their vulnerabilities. With the approval of the Congress and in conjunction with the President's National Drug Strategy, the Financial Crimes Enforcement Network (FinCEN) was established in FY 1990 by the Department of the Treasury in order to combat money laundering.

FinCEN is a multiagency intelligence and analytical network which will coordinate the analysis of financial intelligence currently retained by numerous Federal, State, local, and foreign law enforcement and regulatory agencies. This financial intelligence will be augmented through liaison with the Intelligence Community. Using a multiagency, multidiscipline (analyst, examiner, investigator) approach, FinCEN will conduct both strategic and tactical analysis of information drawn from its multi-source data base for use by law enforcement. In addition to intelligence analysis, FinCEN will provide target identification, financial research, and enforcement support to law enforcement, regulatory agencies, and, where applicable, the financial communities. Also, FinCEN will:

- o assist Federal, State, and local law enforcement agencies to better coordinate their investigations;
- o identify new and emerging methods, patterns, and trends used by launderers and incorporate these into informational programs and seminars for domestic and foreign law enforcement as well as the financial industry; and
- o draw upon the expertise of the financial community and the public sector in its efforts to support financial investigations.

Financial Crimes Enforcement Network (FinCEN)

Mission Organization

FinCEN consists of five primary functional areas: Tactical Analysis, Operations Support, Strategic Analysis, Research and Development, and Systems Support. These areas will be staffed by permanent FinCEN employees as well as special agents on nonreimbursable details from the Internal Revenue Service, U.S. Customs Service, Bureau of Alcohol, Tobacco, and Firearms, U.S. Secret Service, the Federal Bureau of Investigation, the Drug Enforcement Administration, the U.S. Postal Service, and other agencies as appropriate.

1. Tactical Analysis

The Tactical Analysis function, using an Artificial Intelligence System maintained by the Systems Support function, will process the majority of the data collected and analyzed. This function is aimed at supporting field investigations.

The Artificial Intelligence System is a highly sophisticated method of analyzing intelligence from myriad sources such as investigative case reports, search warrants, public records and private data bases. It will greatly enhance FinCEN's ability to identify targets from raw data, storing and sorting through millions of records from hundreds of data bases, which would be impossible to perform manually.

Tactical Analysis will analyze the data provided by participating agencies and provide the agency with a report summarizing the results of that analysis. Through extensive research of the information provided to FinCEN, the analytical team may be able to use link analysis techniques to determine the nature of a criminal enterprise's financial organization. The team will also look for new tactical leads developed through the analysis which will be provided to the appropriate agency for investigation.

Because of FinCEN's access to numerous data bases, both commercial and government, FinCEN will handle special projects not directly related to targeting individuals/organizations involved in money laundering or other types of financial crimes. Some of these special projects would include determining current locations of fugitives, identification of individuals who owe Federal Court leveled fines and are involved in large currency transactions, background checks for bank regulatory agencies, and asset identification research for forfeiture purposes.

2. Operations Support

Operations Support will act as a point of contact as participating agencies request assistance in the field, assist in coordination of major multiagency investigations such as POLARCAP; receive and process requests for Bank Secrecy Act and Form 8300 data (reports of currency transactions by trades and/or businesses) from participating law enforcement and regulatory agencies; coordinate and support field requests to visit FinCEN for the purpose of targeting cases through the Artificial Intelligence System, and maintain a high level of financial expertise in financial crimes enforcement, especially in Title 32 and Title 18 money laundering investigations.

Operations Support will also operate a communication facility. Agents of all participating agencies will be able to query a host of data bases on a real time basis, and obtain guidance on existing financial crimes legislation. The Operations Center will be able to telephonically assist law enforcement officers worldwide in the identification and collection of evidence of financial crimes. The Center will determine whether or not the evidence warrants deployment of a FinCEN field response team or whether a computerized program would suffice for collection of evidence.

The field response team is comprised of one or more Senior Special Agents together with an appropriate number of Intelligence Research Specialists, whose role is to respond to requests by investigative agencies for technical assistance and support in major or unusually complex financial cases. Such requests are generally based on the need for analysis of voluminous documents, records, or other evidence of financial transactions that were designed to conceal or disguise the true nature, source, location, ownership, or control, of the funds involved and/or to avoid Currency Transaction Reporting requirements. The field response team will travel to the office where such records are located, review and analyze the available evidence, prepare data summaries, and advise the investigative authority on further action.

The communication facility will handle both a business number for FinCEN and a toll-free number established to collect suspected money laundering intelligence. It will also assist Federal, State, and local law enforcement agencies to better coordinate their investigations.

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3. Strategic Analysis

In comparison to the Tactical Analysis function, which can be characterized as focusing upon events which have already occurred, the Strategic Analysis function can be characterized as focusing upon events that will happen from this day forward. Using a proactive approach, Strategic Analysis will provide the development of information on emerging trends and patterns in financial investigations. In addition, it will be the point at which the Intelligence Community participates in FinCEN, and, as such, will be responsible for the review and analysis of classified information collected by the Intelligence Community. Conversely, Strategic Analysis will be the focal point for any requests made of the Intelligence Community for the collection of information and/or data relative to financial crimes.

Strategic Analysis is expected to provide regular reports on trends in money laundering (i.e., methods used, areas of money laundering both domestically and internationally), projections of the top 10 money laundering techniques, identification of domestic and international cash flow patterns that relate to the money laundering cases and currency seizures (and creation of a data base on this information).

4. Research and Development

The Research and Development function is responsible for establishing and maintaining contact with domestic and foreign law enforcement and bank regulatory agencies, with the domestic and international financial communities, and with the business and private sectors.

This function will identify and evaluate financial enforcement vulnerability areas, initiate and develop issue-specific seminars that focus on topics relevant to financial crimes, assess their impact, and result in recommended actions for FinCEN participants. Once an issue is identified, appropriate persons from the financial, business, and private sectors as well as from law enforcement and bank regulatory agencies, will participate to evaluate the issue and to address problems that may arise as a result of the issue. End products of seminars will include reports on priority topics as recommended by participants in addition to seminar results.

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The Research and Development function is also responsible for both initiating and maintaining contact with persons and organizations to keep FinCEN in the forefront of financial crimes enforcement, with access to their data bases if it would benefit FinCEN's financial enforcement mission, and keeping them informed of what services FinCEN can provide. Ancillary to its liaison role, Research and Development will be responsible on an ongoing basis for conducting research into those issues to be discussed at the seminars and to identify new issues which could impact on financial enforcement. By bringing together representatives of all appropriate organizations, FinCEN hopes to resolve key issues in a way that provides the greatest benefit to financial crimes enforcement with the least amount of disruption to legitimate financial, business, or private interests. Because of its compartmentalized structure, FinCEN is able to openly discuss a wide range of financial issues with non-law enforcement agencies without fear of jeopardizing classified information and Intelligence Community participation.

5. Systems Support

The Systems Support function is responsible for the design, development, and maintenance of all data systems and the management of data base functions. Systems Support develops, implements, and manages the Artificial Intelligence data base for FinCEN, and provides security and support to all data bases.

First, Systems Support provides support to FinCEN's administrative computer systems, local investigative data base development, investigation of internal computer crime, technical and systems security, and field investigative support. It is responsible for maintaining, operating, and enhancing FinCEN's IBM Local Area Network (LAN). It is also involved in technical consultation and direct participation in the seizure of evidence such as computer hardware, software, and data. Systems Support staff provide technical assistance to field investigators with hidden, encrypted, and disguised files.

Second, Systems Support directs large FinCEN systems projects and data processing liaison efforts with international, Federal, State, and local agencies. It leads FinCEN ADP project teams in the analysis, design, and development of large financial law enforcement systems to satisfy FinCEN's targeting and investigative support needs. It defines requirements for new and enhanced systems, data bases, and interfaces with other enforcement networks to enforce the Bank Secrecy Act and money laundering statutes, oversees the programming and data base implementation, and performs final acceptance testing.

THURSDAY, MARCH 1, 1990.

INTERNAL REVENUE SERVICE

WITNESSES

FRED T. GOLDBERG, JR., COMMISSIONER OF INTERNAL REVENUE

MICHAEL J. MURPHY, SENIOR DEPUTY COMMISSIONER

JOHN D. JOHNSON, DEPUTY COMMISSIONER (PLANNING AND RESOURCES)/CHIEF FINANCIAL OFFICER

CHARLES H. BRENNAN, DEPUTY COMMISSIONER (OPERATIONS)

HENRY H. PHILCOX, ACTING CHIEF INFORMATION OFFICER

RICHARD J. MIHELCIC, ASSOCIATE CHIEF COUNSEL (FINANCE AND MANAGEMENT)

DAVID M. NUMMY, DEPUTY ASSISTANT SECRETARY FOR DEPARTMENTAL FINANCE AND MANAGEMENT

OPENING REMARKS

Mr. ROYBAL. The committee will come to order. The committee is in session this morning to hear from the Internal Revenue Service.

I wish to welcome Mr. Goldberg, Mr. Johnson, Mr. Murphy, and your colleagues. I ask Mr. Goldberg or any one of the three to proceed in any manner that you may desire.

Mr. GOLDBERG. Thank you, Mr. Chairman. I appreciate my first opportunity to appear before the subcommittee as Commissioner of Internal Revenue. I had the honor to appear before you in a prior life as Chief Counsel for the IRS in the mid-1980s. And I am very well acquainted with the enormous care and concern you have for our tax system and the contribution that you and your colleagues have made for many years in keeping the system healthy and working reasonably well.

With me are: Mike Murphy, the Senior Deputy Commissioner; John Johnson our Deputy Commissioner for Planning and Resources, and also our newly appointed Chief Financial Officer; Charly Brennan, our Deputy Commissioner for Operations; Hank Philcox, our Acting Chief Information Officer; and Rich Mihelcic, Associate Chief Counsel for Finance and Management.

In addition, joining us is David Nummy, the department's Deputy Assistant Secretary for Departmental Finance and Management.

With your permission, Mr. Chairman, I would like to submit my written statement on our proposed budget for the record and take a somewhat broader and a little bit different focus in my opening remarks. We will of course be available to answer questions at the conclusion of my testimony.

[The prepared statement of Fred T. Goldberg, Jr. and biographical sketches follow:]

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
OPENING STATEMENT OF
FRED T. GOLDBERG, JR.
COMMISSIONER OF INTERNAL REVENUE
BEFORE THE
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE
AND GENERAL GOVERNMENT
HOUSE APPROPRIATIONS COMMITTEE
MARCH 1, 1990

I APPRECIATE MY FIRST OPPORTUNITY TO APPEAR BEFORE THIS SUBCOMMITTEE TODAY AS COMMISSIONER OF THE INTERNAL REVENUE SERVICE TO DISCUSS OUR FY 1991 BUDGET. HAVING SERVED PREVIOUSLY AS BOTH AN ASSISTANT TO THE COMMISSIONER AND IRS'S CHIEF COUNSEL, I AM WELL AWARE OF THE CRITICALLY IMPORTANT ROLE THIS SUBCOMMITTEE HAS PLAYED IN ENSURING EFFECTIVE AND FAIR TAX ADMINISTRATION.

WITH ME ARE MIKE MURPHY, SENIOR DEPUTY COMMISSIONER, JOHN JOHNSON, OUR NEW DEPUTY COMMISSIONER FOR PLANNING AND RESOURCES AND CHIEF FINANCIAL OFFICER, TESTIFYING FOR THE FIRST TIME BEFORE THIS SUBCOMMITTEE, CHARLY BRENNAN, DEPUTY COMMISSIONER FOR OPERATIONS, HANK PHILCOX, ACTING CHIEF INFORMATION OFFICER, AND RICH MIHELCIC, ASSOCIATE CHIEF COUNSEL FOR FINANCE AND MANAGEMENT. WE WILL OF COURSE BE AVAILABLE TO RESPOND TO ANY QUESTIONS YOU OR THE OTHER MEMBERS MAY HAVE AT THE CONCLUSION OF MY PREPARED STATEMENT.

LET ME BEGIN BY STATING THAT I AM VERY PLEASED WITH THE BUDGET BEING PROPOSED. I RECOGNIZE YOU'VE HEARD THIS BEFORE -- WE'VE SOLVED ALL OUR PROBLEMS -- JUST GIVE US WHAT WE ASK FOR AND ALL OF IRS'S FINANCIAL PROBLEMS WILL BE SOLVED.

I BELIEVE SO STRONGLY IN THIS BUDGET BECAUSE IT IS STRUCTURED TO ASSURE THAT THE INCREASES CALLED FOR WILL IN FACT BE USED FOR THE PURPOSE STATED. IT ALSO REPRESENTS A NEW APPROACH TO HOW WE CONDUCT THE BUSINESS OF TAX ADMINISTRATION EACH AND EVERYDAY.

SINCE BECOMING COMMISSIONER, I HAVE WORKED TO PERMANENTLY CORRECT STRUCTURAL IMBALANCES IN THE SERVICE'S BUDGET THAT HAVE HAUNTED US FROM ONE YEAR TO THE NEXT. WE ARE CONTINUALLY FACED WITH RISING PERSONNEL COSTS, DECISIONS THAT WE HAVE TO MAKE TO ADDRESS INCREASED LABOR MARKET PRESSURES, AND THE IMPACT OF NEW LEGISLATION. THIS HAS CHALLENGED OUR PRODUCTIVITY. ON TOP OF THIS, WE HAVE TO ADDRESS THE EVER INCREASING COST SQUEEZE OF TECHNOLOGY, BOTH FROM ADDRESSING THE INVESTMENT IN SYSTEMS FOR THE 1990'S AND MAINTAINING CURRENT TECHNOLOGY IN TODAY'S ENVIRONMENT. I KNOW YOU SHARE MY CONCERN THAT WE MUST NOT ONLY COVER THESE COSTS, BUT AT THE SAME TIME FIND WAYS TO MEET OUR TAX ADMINISTRATION RESPONSIBILITIES MORE EFFICIENTLY AND EFFECTIVELY.

I AM COMMITTED TO MAKING OUR WORKFORCE MORE PRODUCTIVE BY IMPLEMENTING BROAD BASED IMPROVEMENTS. IN RESPONSE TO THIS, THIS BUDGET FULLY FUNDS 1991 PHASE OF OUR MODERNIZATION EFFORT. IT REFLECTS AN INCREASE OF $146 MILLION OVER FY 1990 LEVELS TO CONTINUE MODERNIZATION OF TAX SYSTEMS AND MAINTAIN CURRENT SYSTEMS WHILE THE IMPROVED SYSTEMS ARE IMPLEMENTED. TAX SYSTEMS MODERNIZATION IS A MULTI-YEAR EFFORT TO BRING IRS'S OUTMODED INFORMATION SYTEMS UP TO DATE. THE GOAL IS TO CREATE AN ON-LINE

Finally, Systems Support leads the Artificial Intelligence projects as a means to identify potential money laundering targets based on a variety of parameters, such as dollar tolerance, home address versus transaction address, and occupation from currency transaction reports (CTR) and currency monetary instrument reports (CMIR). It expands systems formats to include information provided by other sources. Programs are developed to use APOLLO series computers to accomplish these tasks in order to minimize data loss established with prior development efforts.

FY 1990/1991

Because FY 1990 is the startup year for FinCEN and full funding was initially uncertain, hiring of all 148 permanent positions is not expected to be completed until the end of this fiscal year, resulting in only 66 full time equivalent (FTE) positions being expended in FY 1990. The FinCEN staff will be supplemented by approximately 48 special agents from participating agencies, assigned to FinCEN on a nonreimbursable basis. Any reference to FTE, in this document, excludes these agents. In FY 1991, FinCEN is expected to realize its full ceiling of 148 FTE.

The FY 1990 authorized level for FinCEN is $13,387,000, as approved by the Congressional Appropriations Committees and reprogrammed within the U.S. Customs Service Salaries and Expenses Appropriation. The budget estimate for FinCEN in FY 1991 is $16,188,000, a net increase of $2.8 million above the FY 1990 authorized level. This increase is a combination of ADP initiatives totalling $1.6 million and annualizations totalling $6.9 million mainly for staffing and contracts, offset by nonrecurring costs totalling $5.7 million for PCS moves, one-time security costs, building cabling, and equipment. The initiative costs include $1.4 million in hardware, software, and contract costs for the IBM LAN Computer in support of the agents and analysts participating in FinCEN, and $0.2 million in Artificial Intelligence maintenance and contract costs to increase its scope and usefulness.

DETAIL OF PERMANENT POSITIONS BY CATEGORY
(Number of Full Time Equivalent Positions)

FinCEN Staff	Actual 1989	Estimated 1990	Estimated 1991	Increases/Decreases for 1991 Total Changes	Program Changes	Other Changes
Intelligence	0	37	84	47	0	47
Computer/Systems Specialists	0	8	21	13	0	13
Communications Specialists	0	1	5	4	0	4
Auditors	0	2	6	4	0	4
Executive Management	0	5	13	8	0	8
Operational Support	0	12	17	5	0	5
Subtotal	0	65	146	81	0	81
Part-time and Temporary Full Time Equivalent Positions	0	1	2	1	0	1
Subtotal	0	66	148	82	0	82
Nonreimbursable Special Agents	0	24	48	0	0	0
Total Staffing	0	90	196	82	0	82

EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

In FY 1991, funding requirements for FinCEN are projected to be $16,188,000. Increases include $6.9 million for annualizations following the FY 1990 startup of FinCEN and $1.6 million for ADP initiatives. These increases are offset by $5.7 million in nonrecurring costs. This results in a net increase of $2.8 million in FY 1991 over the FY 1990 proposed authorized level.

PROGRAM CHANGES

Total Requested Program Changes.....$1,574,000
0 FTE Pos.

An FY 1991 program increase of $1,574,000 and 0 FTE positions is requested as part of the multiphase development of FinCEN's ADP capabilities necessary to build financial data bases and provide agents and analysts access to those data bases. The funding will provide basic acquisition of hardware and software for a local area network (LAN) operational for full staffing. This funding also includes acquisition of Artificial Intelligence software and the completion of FinCEN's Automated Data Base query capabilities.

The funding for this program increase by object class is as follows:

Other Services (Maintenance).....	$591,000
Supplies and Materials (ADP Software).....	$171,000
Equipment (ADP Hardware).....	$812,000
Total	$1,574,000

OTHER CHANGES

Total Other Changes.....$1,227,000
0 FTE Pos.

A. Annualizations.....$6,894,000
82 FTE Pos.

These costs reflect the annualization mainly of staffing and contracts from the startup of FinCEN in FY 1990.

B. Nonrecurring Costs.....-$5,667,000
0 FTE Pos.

Nonrecurring costs are primarily first-year costs in FY 1990 associated with new hires, such as PCS moves, furniture, equipment, building cabling, and building security.

Financial Crimes Enforcement Network (FinCEN)

STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY)

	FY 1989 Actual	FY 1990 Proposed Authorized Level	FY 1991 Appropriation Request	FY 1991 Increase/ Decrease from FY 1990
Total number of permanent positions*..	0	148	148	0
Full time equivalent (FTE) positions*.	0	66	148	82
Object Classification ($000):				
Personnel compensation.....	0	3,613	6,054	2,441
Personnel benefits.....	0	1,230	2,704	1,474
Benefits to former personnel.....	0	0	0	0
Travel and transportation of persons..	0	960	924	(36)
Transportation of things.....	0	60	35	(25)
Rent, communications and utilities:				
Rental payments to GSA.....	0	677	707	30
Rental payments to others.....	0	63	91	28
Other rent, comm. and utilities.....	0	544	717	173
Printing and reproduction.....	0	0	0	0
Other services.....	0	3,276	3,561	285
Supplies and materials.....	0	304	331	27
Equipment.....	0	2,660	1,064	(1,596)
Total obligations	0	13,387	16,188	2,801

* NOTE: This does not include 48 Special Agents on non-reimbursable details to FinCEN.

SYSTEM LETTING IRS GIVE TAXPAYERS THE QUALITY OF SERVICE TO WHICH THEY ARE ENTITLED. MODERNIZATION WILL ALSO ALLOW US TO IMPROVE THE PRODUCTIVITY AND EFFICIENCY OF REVENUE COLLECTION ACTIVITIES.

THIS BUDGET IMPROVES TAX ENFORCEMENT CAPABILITIES AND INCREASES REVENUE FROM ENFORCEMENT PROGRAMS. ADDITIONAL FUNDS REPRESENT A LONG-TERM INVESTMENT APPROACH TO STRENGTHENING COMPLIANCE AND COLLECTING MORE REVENUE. THROUGH A COMBINATION OF BUDGET INCREASES AND MANAGEMENT INITIATIVES, DIRECT ENFORCEMENT REVENUE WILL INCREASE BY $3 BILLION IN 1991.

FY 1990 CONCERNS

IRS RESOURCES HAVE GROWN FROM A 1986 BUDGET OF $3.8 BILLION PROVIDING FOR ALMOST 96,000 STAFF YEARS TO $5.5 BILLION AND 115,000 STAFF YEARS IN 1990 (40 PERCENT IN NOMINAL TERMS, BUT 20 PERCENT IN CONSTANT DOLLARS.)

WHILE OUR BUDGET HAS GROWN, IRS HAS FACED A REAL PROBLEM OF A WIDENING DISPARITY BETWEEN THE TOTAL BUDGET AVAILABLE AND ACTUAL COSTS OF A VARIETY OF FUNCTIONS. THESE INCREASES RESULTED FROM A COMBINATION OF FACTORS:

-- NATURAL GROWTH IN THE TAX PAYING POPULATION, THAT ULTIMATELY AFFECTS EVERY PROGRAM WE OPERATE;

-- LEGISLATED PAY RAISES;

-- HIGHER LABOR EXPENDITURES THAT WE DECIDED TO PAY TO RECRUIT AND RETAIN QUALIFIED PERSONNEL IN HIGHLY COMPETITIVE LABOR MARKETS;

-- ESCALATING HEALTH AND RETIREMENT COSTS;

-- INFLATIONARY INCREASES IN OTHER COSTS OF EMPLOYEE SUPPORT;

-- INCREASING COST OF TECHNOLOGY, AND

-- INFLATIONARY INCREASES BY OTHER AGENCIES (GSA, NARA).

THROUGHOUT 1988 AND 1989, WITH YOUR HELP, WE TOOK THE STEPS NECESSARY TO ADDRESS DEFICITS THAT AROSE FROM THESE FACTORS. IN FY 1990, DUE TO THE REQUIRED ABSORPTION OF THE PAY INCREASE AND SEQUESTRATION, WE HAVE HAD TO DELAY CERTAIN COMPONENTS OF REVENUE AND INFORMATION SYSTEMS INITIATIVES. ALTHOUGH THESE ADJUSTMENTS WILL ALSO IMPACT OUR TAXPAYER SERVICE PROGRAM SOMEWHAT, PROCESSING TAX RETURNS AND ISSUING REFUNDS WILL NOT BE AFFECTED. MOREOVER, DESPITE SEQUESTRATION, THE FY 1990 BUDGET FUNDS ALMOST A SIX PERCENT INCREASE OVER FY 1989 LEVELS, INCLUDING AN 84 PERCENT INCREASE IN THE CRITICAL TAX SYSTEM MODERNIZATION PROGRAM. WE EXPECT THE FILING SEASON NOW UNDERWAY TO BE A SUCCESSFUL ONE.

WE HAVE HAD TO MAKE DIFFICULT DECISIONS FOR 1990. THE BUDGET FOR 1991 IS A GOOD BUDGET. IT PROVIDES THE FUNDING NECESSARY TO ALLEVIATE SHORTFALLS, ADDRESS STRUCTURAL IMBALANCES, AND PROPERLY FUND IRS OPERATIONS WHILE MAKING INVESTMENTS TOWARD A LONG RANGE PLAN OF IMPROVING THE TAX SYSTEM.

WE MUST NOT FORGET, HOWEVER, THAT THE UNCERTAIN ENVIRONMENT WE OPERATE IN CAN CREATE A FICTION. COSTS CONTINUE TO RISE UNEXPECTEDLY. POSSIBLE INCREASES IN SUCH AREAS AS SPACE CHARGES, TELECOMMUNICATIONS AND POSTAL RATES ARE NOT ENTIRELY

ADDRESSED IN THIS BUDGET. THESE ARE COSTS WHICH WE CANNOT BUDGET FOR BUT MAY, IF HISTORICAL PATTERNS PREVAIL, HAVE TO BE ADDRESSED IN 1991.

APPROPRIATION RESTRUCTURE

AS PROPOSED BY MY CHIEF FINANCIAL OFFICER AND THE DEPUTY ASSISTANT SECRETARY, WE HAVE DEVELOPED A NEW BUDGET ACCOUNT FORMAT FOR FISCAL YEAR 1991 TO BETTER ALIGN OUR ACCOUNTS AND PROVIDE A GREATER DEGREE OF ACCOUNTABILITY.

THE PRESIDENT'S BUDGET CONTAINS THE PROPOSED APPROPRIATION RESTRUCTURING FOR THE INTERNAL REVENUE SERVICE. FOUR APPROPRIATION ACCOUNTS ARE PROPOSED:

- o ADMINISTRATION AND MANAGEMENT, WHICH REPLACES THE SALARIES AND EXPENSES APPROPRIATION WHICH INADEQUATELY ADDRESSED THE FULL ARRAY OF RESPONSIBILITIES PERTAINING TO EXECUTIVE OVERSIGHT, ESPECIALLY IN THE CONTEXT OF GROWING CONGRESSIONAL CONCERNS ABOUT ENSURING ORGANIZATIONAL INTEGRITY.
- o PROCESSING TAX RETURNS AND ASSISTANCE, EXCLUSIVELY FOCUSING ON THOSE TAX ADMINISTRATION FUNCTIONS RELATED TO VOLUNTARY COMPLIANCE WITH THE TAX LAWS, INCLUDING THE PROCESSING OF RETURNS AND REPORTS WITHIN THE VOLUNTARY COMPLIANCE FRAMEWORK AND THE ASSISTING OF TAXPAYERS TO ACHIEVE THAT COMPLIANCE.
- o TAX LAW ENFORCEMENT, WHICH PRESENTS THE OPERATING COST OF DIRECTLY ENFORCING THE TAX CODE, AND OF IRS MONEY LAUNDERING ENFORCEMENT FUNCTIONS, INCLUDING THE PROCESSING OF CURRENCY

TRANSACTION REPORTS WHICH ARE USED TO DETECT MONEY LAUNDERING SCHEMES.

- o INFORMATION SYSTEMS, WHICH CONSOLIDATES AND MAKES EXPLICIT ALL IRS INFORMATION SYSTEMS RESEARCH, DEVELOPMENT, AND OPERATING COSTS, DEPARTING FROM THE PAST WHERE SOME OF THESE COSTS WERE EMBEDDED IN PROGRAM BUDGET ACTIVITES.

PROPOSED BUDGET

THERE ARE MANY SIGNIFICANT ISSUES AFFECTING IRS AS WE ENTER THE 1990'S. IMPROVING VOLUNTARY COMPLIANCE LEVELS AND QUALITY CUSTOMER SERVICE ARE HIGH PRIORITIES. OUR BUDGET FOR 1991 AIMS AT MAKING THE SYSTEM MORE WORKABLE FOR THE AMERICAN TAXPAYER.

ROUGHLY 113 MILLION AMERICANS PAY TAXES. AND TAXPAYERS HAVE THE RIGHT TO EXPECT A TAX ADMINISTRATION SYSTEM THAT IS BOTH EFFECTIVE AND FAIR AS WELL AS AN INTERNAL REVENUE SERVICE THAT IS RESPONSIVE AND RESPONSIBLE TO THEM. THE BUDGET REQUESTS $6.1 BILLION AND NEARLY 120,000 STAFF YEARS IN 1991 -- $635 MILLION (11.5 PERCENT) MORE THAN IN 1990 -- TO ENSURE TIMELINESS IN PROCESSING TAX RETURNS AND ISSUING REFUNDS, WHILE STRENGTHENING TAX ENFORCEMENT AND COMPLIANCE PROGRAMS.

THIS BUDGET FUNDS AN 80 PERCENT LEVEL OF TAXPAYER SERVICE TO THE PUBLIC AND STRENGTHENS EFFORTS TO IMPROVE ACCURACY OF RESPONSES TO TAXPAYERS' QUESTIONS. THE 1991 BUDGET WILL CONTINUE SUPPORT OF TAX PROCESSING LEVELS REQUIRED TO ENSURE THAT TAX RETURNS ARE PROCESSED ACCURATELY AND REFUNDS ARE ISSUED TIMELY.

THERE ARE SERIOUS DEFICIENCIES IN MANAGEMENT INFORMATION SYSTEMS THROUGHOUT THE SERVICE. WE MUST IMPROVE AND INTEGRATE OUR FINANCIAL AND REVENUE ACCOUNTING FUNCTIONS. WE BELIEVE THAT APPOINTMENT OF A CHIEF FINANCIAL OFFICER, AS RECOMMENDED BY THE GAO AND OTHERS, IS A STEP IN THE RIGHT DIRECTION.

WE ARE CURRENTLY HANDICAPPED BY OUTMODED COMPUTER SYSTEMS. FULLY SATISFACTORY FINANCIAL AND REVENUE ACCOUNTING MUST AWAIT OUR SYSTEMS MODERNIZATION EFFORTS. WE CAN AND MUST DO BETTER.

TAX SIMPLIFICATION

DURING THE PAST EIGHT MONTHS THAT I'VE SERVED AS COMMISSIONER, I HAVE MADE FREQUENT SPEECHES AROUND THE COUNTRY ON THE NEED TO SIMPLIFY LAWS, REGULATIONS, AND ADMINISTRATIVE PROCEDURES. OUR TAX SYSTEM IS A WORLD OF CONTRASTS. WHILE IT IS IMPORTANT TO RECOGNIZE THE CONTRIBUTION OF TAX LEGISLATION IN THE 1980S -- PARTICULARLY TAX REFORM '86 WHICH SIMPLIFIED THE SYSTEM FOR TENS OF MILLIONS OF AMERICANS -- THE FRENZY AND CUMULATIVE IMPACT OF REPEATED TAX LAW CHANGES ALONG WITH INTERPRETATIONS OF THOSE CHANGES HAVE IMPOSED A STAGGERING BURDEN OF COMPLEXITY, UNCERTAINTY, AND ADMINISTRATIVE COSTS ON INDIVIDUAL TAXPAYERS AND BUSINESSES, AS WELL AS THE IRS.

IF TAXPAYERS CANNOT UNDERSTAND OUR LAWS AND REGULATIONS, OR IF COMPLIANCE WITH THOSE REQUIREMENTS IS PROHIBITIVELY EXPENSIVE, THEY WILL TAKE SHORTCUTS AND NOT FULLY COMPLY. EVERY ONE PERCENT DROP IN COMPLIANCE COSTS THE TREASURY MORE THAN $5 BILLION IN

LOST REVENUE. IT FOLLOWS, IF IRS EMPLOYEES FIND IT DIFFICULT TO UNDERSTAND AND CONVEY THOSE LAWS AND REGULATIONS, WE WILL HAVE A HARD TIME ADMINISTERING AND ENFORCING THEM.

THE CHALLENGE OF TAX ADMINISTRATION IN THE 90'S IS TO EASE THE BURDEN ON THE AMERICAN TAXPAYER. THIS EXTENDS FAR BEYOND LEGISLATION, GOING TO THE HEART OF OUR BUDGET REQUEST THIS YEAR -- THE NEED TO MODERNIZE OUR COMPUTER SYSTEMS AS WELL AS DELIVER ON OUR PROMISE OF QUALITY CUSTOMER SERVICE. AS PREVIOUSLY INDICATED, WE ARE FUNDED IN 1991 TO ACHIEVE AN 80 PERCENT RESPONSIVE LEVEL OF TAXPAYER SERVICE. OUR GOAL IS TO MAKE IT EASIER FOR TAXPAYERS TO COMPLY, IMPROVE THE ACCURACY AND SPEED WITH WHICH WE RESPOND TO TAXPAYERS, AND REDUCE BUSY SIGNALS. I AM VERY MUCH AWARE THAT THE QUALITY OF SERVICE WE PROVIDE UPFRONT IS THE FIRST STEP TO IMPROVING COMPLIANCE.

TAX SYSTEM MODERNIZATION

AS YOU ARE AWARE, MR. CHAIRMAN, TAX SYSTEMS MODERNIZATION IS ONE OF THE SERVICE'S MAJOR INITIATIVES. THE PRESIDENT HAS SELECTED THE MODERNIZATION OF TAX ADMINISTRATION AS A PRESIDENTIAL MANAGEMENT OBJECTIVE FOR HIS ADMINISTRATION. THE PRESIDENT'S BUDGET FULLY FUNDS THE FY 1991 INCREMENT FOR OUR LONG TERM MODERNIZATION EFFORT. WE HAVE STRUCTURED OUR 1991 PROPOSALS TO THOSE MOST NECESSARY TO MEET CAPACITY DEMAND AND TO PROVIDE MORE RESPONSIVE SERVICE TO THE PUBLIC. ALTHOUGH WE CONTINUE TO EXPERIENCE TECHNICAL PROBLEMS IN MANAGING TAXPAYER COMPLIANCE, WE ARE

BUILDING THE NECESSARY BASE IN OUR MODERNIZATION PROGRAM TO REALIZE GAINS IN THIS AREA AS WELL. THE INFORMATION SYSTEMS INCREASES ALSO ALLOW US TO GAIN THE MOMENTUM FOR BADLY NEEDED SYSTEMS MODERNIZATION. WE CANNOT AFFORD TO LAG BEHIND IN THIS AREA. TECHNOLOGY IS RAPIDLY CHANGING AND WE MUST BE PREPARED TO DEAL WITH CONTINUED GROWTH IN INFORMATION AND THE LIMITS OF CURRENT CAPACITY THAT WE FACE IN THE NEAR FUTURE.

WE DO NOT HAVE TO WAIT TO REALIZE GAINS FROM OUR EFFORTS. MODERNIZATION IS ALREADY SHOWING BENEFITS. FOR EXAMPLE ...

-- TAXPAYERS IN ALL 50 STATES CAN NOW TAKE ADVANTAGE OF FILING THEIR RETURNS ELECTRONICALLY, RECEIVING THEIR REFUND IN ONLY 2 TO 3 WEEKS INSTEAD OF AN AVERAGE 6 TO 10 WEEKS. COMPARED TO LAST YEAR, THERE HAS BEEN AN INCREASE OF 300 PERCENT SO FAR IN THE NUMBER OF TAXPAYERS FILING ELECTRONICALLY. WE EXPECT MORE THAN 2 MILLION TAXPAYERS TO FILE ELECTRONICALLY THIS YEAR.

-- TAXPAYER ACCOUNTS ARE BEING RESOLVED FASTER THROUGH DIRECT LINKAGE OF ACCOUNT DATA IN IRS SYSTEMS. DURING 1990, WE WILL IMPLEMENT THE FIRST PHASE OF A PILOT OF THE AUTOMATED UNDERREPORTER SYSTEM, WHICH WHEN FULLY IMPLEMENTED WILL PROVIDE ASSISTORS AND EXAMINERS NATIONWIDE WITH MORE IMMEDIATE ACCESS TO CASE INFORMATION. WITH THIS SYSTEM, WE WILL BE ABLE TO RESPOND TO INQUIRIES QUICKER, BOTH BEFORE AND AFTER NOTICES ARE ISSUED.

-- RECEIPT OF TAXPAYER CORRESPONDENCE WILL BE RECORDED IN A MORE TIMELY FASHION PREVENTING AUTOMATIC GENERATION AND MAILING OF ADDITIONAL, OFTEN UNNECESSARY NOTICES TO TAXPAYERS. FEWER NOTICES MEAN FEWER LETTERS FROM TAXPAYERS.

TAX SYSTEM MODERNIZATION WILL REDUCE ERRORS ON THE FRONT-END OF OUR PROCESSING SYSTEM SO THE SYSTEM WILL CONTAIN MORE ACCURATE INFORMATION ON TAXPAYER ACCOUNTS. AN EXAMPLE IS THE ON-LINE ENTITY PROJECT, WHICH WILL VERIFY CERTAIN RETURN INFORMATION AS SOON AS IT IS PROCESSED. THIS WILL IMPROVE THE ACCURACY OF TAXPAYER IDENTIFICATION INFORMATION BEFORE POSTING IT TO THE IRS MASTER FILE OF TAXPAYER ACCOUNTS. THE NET RESULT WILL BE FEWER ERRONEOUS NOTICES AND LEVIES WHICH COST BOTH IRS AND TAXPAYERS TIME AND MONEY TO RESOLVE, AND WILL ALLOW US TO DEVOTE OUR RESOURCES TO TRULY DELINQUENT ACCOUNTS.

THE NEW SYSTEM WILL ALSO ALLOW FASTER ACCESS TO ACCOUNT INFORMATION CURRENTLY MAINTAINED ON TAXPAYERS. IT WILL ENABLE US TO RESOLVE TAXPAYERS' INQUIRIES AND SETTLE THEIR ACCOUNTS FASTER, WHILE ALSO PROVIDING FIELD PERSONNEL WITH MORE TIMELY INFORMATION TO DETERMINE APPROPRIATE COLLECTION ACTION. AN EXAMPLE IS A PROJECT THAT WILL ALLOW OUR DISTRICT OFFICE EMPLOYEES TO HAVE ACCESS TO THE LATEST AND MOST ACCURATE ACCOUNT DATA, INFORMATION NOT NOW AVAILABLE ON AUTOMATED COLLECTION SYSTEM TERMINALS.

WE ARE CURRENTLY REVAMPING OUR REVENUE ACCOUNTING SYSTEM TO PROVIDE AN ON-LINE, REAL-TIME ACCOUNTING CONTROL AND MANAGEMENT INFORMATION SYSTEM. THE FIRST PHASE OF THIS SYSTEM

WILL PROVIDE AN ALLOWANCE FOR DOUBTFUL ACCOUNTS, CAPTURE ACCRUED PENALITIES AND INTEREST, AND RELATE THE INFORMATION TO AMOUNTS COLLECTED. WE ARE ALREADY PREPARING REPORTS TO CAPTURE AND ANALYZE THIS DATA BEFORE INCORPORATING IT INTO THE FUTURE FINANCIAL STRUCTURE. EXISTING HARDWARE HAS BEEN UPGRADED TO ACCOMMODATE INTERIM HARDWARE AND EXTEND THE USEFUL LIFE OF THE SYSTEM UNTIL A NEW SYSTEM IS OPERATIONAL.

OUR BUDGET REQUEST INCORPORATES PLANS FOR A NEW APPROACH TO SERVICE DELIVERY IN THE TAXPAYER SERVICE PROGRAM. PREVIOUSLY INITIATED EFFORTS TO ACHIEVE HIGHER ACCURACY AND SERVICE DELIVERY LEVELS IN THE TOLL-FREE PROGRAM WILL CONTINUE. HOWEVER, WE WILL BEGIN TO RELY MORE HEAVILY ON OUR TELE-TAX PROGRAM. THIS APPROACH INVOLVES CHANGING THE ACCESS PROVISIONS OF THE TOLL-FREE PROGRAM SO THAT TAXPAYERS SEEKING TAX LAW OR PROCEDURAL INFORMATION WOULD FIRST BE ENCOURAGED TO PROCEED THROUGH A MENU OF PRE-RECORDED MESSAGES OF ASSISTANCE.

THIS WILL HELP MOVE OUR TOLL-FREE ASSISTANCE PROGRAM TOWARD AN OPTIMUM MIX OF RECORDED AND PERSONAL ASSISTANCE, RECOGNIZING THE NEED FOR LIVE ASSISTANCE FOR THE MORE COMPLEX QUESTIONS AND FOR INDIVIDUAL ACCOUNT MATTERS. TWO PILOT TESTS ARE CURRENTLY UNDERWAY IN DALLAS AND BOSTON. THE DALLAS TEST INCORPORATES A "REFERENCE - BASED" SYSTEM TO IMPROVE ACCURACY. IN BOSTON, AN EXPERT, OR KNOWLEDGE-BASED SYSTEM IS BEING TESTED THAT PROMPTS TAXPAYER ASSISTORS WITH APPROPRIATE QUESTIONS, PROVIDES ADDITIONAL DETAILED EXPLANATIONS, PERFORMS CALCULATIONS, AND GENERATES A

CONCLUSION BASED ON SPECIFIC INFORMATION GIVEN BY THE TAXPAYER. TAXPAYERS WILL RECEIVE MORE ACCURATE AND COMPLETE INFORMATION, REDUCING THE NUMBER OF TIMES THEY HAVE TO CALL BACK IRS FOR ADDITIONAL INFORMATION IN ORDER TO COMPLETE ACCURATE RETURNS. FEWER CALLS WILL HAVE TO BE FORWARDED TO SPECIALISTS BY FRONT LINE ASSISTORS, ALLOWING THOSE SPECIALISTS TO CONCENTRATE ON MORE COMPLICATED TAXPAYER QUESTIONS.

MAINTAINING IRS INTEGRITY

MAINTAINING INTEGRITY OF IRS OPERATIONS IS A KEY ELEMENT IN PRESERVING CONFIDENCE IN OUR ADMINISTRATION OF THE TAX LAWS AND IS FUNDAMENTAL TO OUR SYSTEM OF VOLUNTARY COMPLIANCE. OUR BUDGET REQUEST SUBSTANTIALLY EXPANDS IRS'S INSPECTION SERVICE IN THREE CRITICAL AREAS:

- o AUDIT REVIEWS OF THE INSTALLATION OF PROGRAMS AT REGIONAL, DISTRICT, AND SERVICE CENTER OFFICES,
- o SYSTEMS DEVELOPMENT AUDIT REVIEWS OF THE DESIGN AND IMPLEMENTATION OF MAJOR ADP SYSTEMS, AND
- o INTEGRITY REVIEWS THAT PROBE HIGH RISK AREAS OF IRS OPERATIONS AND TEST TRANSACTIONS TO DETECT FRAUD OR INTEGRITY BREACHES.

OUR AUDIT AND INVESTIGATIVE RESOURCES ARE UP OVER 10 PERCENT IN 1991 IN ORDER TO ASSURE THAT PROGRAMS AND PERSONNEL ADHERE TO THE HIGHEST STANDARDS OF PERFORMANCE AND CONDUCT.

WAR ON DRUGS

IRS CONTINUES TO BE A MAJOR PARTNER IN EFFORTS TO COMBAT DRUG ABUSE. LAST YEAR THIS SUBCOMMITTEE ADDED ADDITIONAL FUNDS FOR IRS'S CRIMINAL INVESTIGATION ACTIVITIES AND FURTHER AMOUNTS WERE ADDED THROUGH THE TRANSPORTATION APPROPRIATION ACT TO SUPPORT ENFORCEMENT OF FEDERAL TAX VIOLATIONS AND MONEY LAUNDERING RELATED TO ILLEGAL NARCOTICS ACTIVITY. THESE AMOUNTS HAVE DIRECTLY STRENGTHENED OUR PROGRAM EFFORTS, PROVIDING BASIC FUNDING FOR A PROGRAM OF HIGH PRIORITY TO IRS AND THE NATION. IN 1991, WE WILL STEP UP OUR INVESTIGATIONS OF TAX FRAUD BY "DRUG LORDS" AND OTHER CRIMINALS.

ENFORCEMENT AND MANAGEMENT INITIATIVES

THE 1991 BUDGET CONTAINS THE FIRST YEAR OF A LONG-TERM INVESTMENT THAT INCLUDES HIGH PRIORITY MANAGEMENT AND BUDGET INITIATIVES DESIGNED TO COLLECT IN FY 1991, $3 BILLION IN ADDITIONAL REVENUE OWED THE GOVERNMENT WHILE STRENGTHENING VOLUNTARY COMPLIANCE. THESE INITIATIVES WILL PROVIDE OVER $9 BILLION IN ADDITIONAL TAX REVENUE THROUGH FY 1995.

OF THE ADDITIONAL $3 BILLION THAT WILL BE GENERATED IN FY 1991, $2.5 BILLION RESULTS FROM MANAGMENT INITIATIVES WHICH REQUIRE NO NEW RESOURCES FROM THE CONGRESS. THESE INITIATIVES REPRESENT A NEW APPROACH TO HOW WE CONDUCT BUSINESS. WE WILL REDEPLOY EXISTING STAFF TO ACCELERATE THE CLOSING OF LARGE DOLLAR CASES AND OVERAGE SHELTER BACKLOGS, AND RESOLVE CRITICAL EXCISE TAX AND PENSION PLAN ISSUES. METHODS WE ARE USING TO ACHIEVE THIS GOAL INCLUDE

APPROACHES SUCH AS STREAMLINED EXAMINATIONS AND APPEALS PROCCESSES AND IDENTIFICATION AND RESOLUTION OF COMMON ISSUES OF LARGE DOLLAR IMPACT.

THE BUDGET PROVIDES $191 MILLION IN NEW FUNDING FOR COMPLIANCE INITIATIVES TO EXPAND COLLECTION AND EXAMINATION ACTIVITIES. I WANT TO EMPHASIZE THESE INITIATIVES REPRESENT THE GROWTH WE CAN PRUDENTLY MANAGE AND ABSORB DURING 1991. NO MORE, NO LESS. TREASURY ACKNOWLEDGES OUR PROJECTION THAT THE FIRST YEAR OF THIS INVESTMENT WILL BRING IN $537 MILLION THAT MIGHT HAVE OTHERWISE GONE UNCOLLECTED.

CLOSING

I BELIEVE OUR TAX SYSTEM IS A WORLD LEADER, YET WE CONTINUALLY CONFRONT NEW CHALLENGES TO MAINTAIN AND ENHANCE OUR SYSTEMS. WE CANNOT FACE THESE CHALLENGES ALONE. WE MUST DELIVER ON OUR COMMITMENTS OF HIGH QUALITY AND RESPONSIVE SERVICE TO THE AMERICAN TAXPAYER. WE MUST SUCCESSFULLY MODERNIZE OUR COMPUTER SYSTEMS. WE MUST SIMPLIFY THE TAX SYSTEM. WHILE THE TAX REFORM ACT OF 1986 GREATLY EASED THE COMPLIANCE BURDEN FOR MANY MILLIONS OF INDIVIDUALS, COMPLEXITY AND UNCERTAINTY STILL FACE MANY TAXPAYERS.

WHILE THE ADMINISTRATION AND CONGRESS HAVE GENERALLY CALLED FOR STAFFING INCREASES IN OUR BUDGET EACH YEAR, THE ACTUAL ALLOCATION OF OUR STAFFING INCREASES, WHAT WE HAVE "REALIZED" FOR EACH PROGRAM IN BUDGET TERMINOLOGY, IS NOT THE SAME. THERE ARE MANY REASONS FOR THIS VARIANCE, RANGING FROM THE BUDGET PROCESS ITSELF

TO IRS SHORTCOMINGS IN HOW WE HAVE MANAGED OUR GROWTH. THE CHALLENGE FOR US IS TO BETTER PLAN FOR THE LONG TERM. INCREASED STAFFING IN RESPONSE TO THE NATURAL GROWTH IN OUR TAX ADMINISTRATION MISSION IS CERTAINLY PART OF THE ANSWER, BUT SO ARE IMPROVED MANAGEMENT AND BETTER USE OF OUR RESOURCES.

WHILE THE IRS IS COMMITTED TO AGRESSIVELY PURSUING NON-COMPLIANCE, WE ARE AT THE SAME TIME COMMITTED TO MAINTAINING TAXPAYER CONFIDENCE IN THE FAIRNESS OF THE TAX SYSTEM. INDEED, THIS CONFIDENCE IS THE BEDROCK OF VOLUNTARY COMPLIANCE. IN DEALING WITH THE PUBLIC, WE MUST BE RESPECTFUL, AND MUST TAKE INTO ACCOUNT SUCH THINGS AS TAXPAYERS' INABILITY TO PAY AND HONEST MISTAKES. AND WE MUST DO EVERYTHING WE CAN TO AVOID MAKING TAXPAYERS THE VICTIMS OF OUR OWN MISTAKES, OUR OUTMODED COMPUTER SYSTEMS, AND NEEDLESS COMPLEXITIES IN THE LAW.

I RECOGNIZE THE DIFFICULTIES YOU FACE IN ADDRESSING OUR NEEDS AMONG THE COMPETING NEEDS ACROSS THE GOVERNMENT. THE DECISIONS THAT MUST BE MADE ARE NOT EASY. THAT IS WHY WE HAVE CONSIDERED OUR REQUEST SERIOUSLY. IT IS ESSENTIAL THAT OUR BUDGET BASE BE FULLY FUNDED.

I LOOK FORWARD TO WORKING WITH YOU, MR. CHAIRMAN, AND THE MEMBERS OF THE SUBCOMMITTEE TO REACH THE OBJECTIVE WE ALL SHARE -- AN EFFECTIVE AND ADEQUATELY BALANCED TAX ADMINISTRATION SYSTEM. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS YOU OR THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE.

BIOGRAPHY

FRED T. GOLDBERG, JR.

Fred T. Goldberg, Jr. was sworn in as Commissioner of the Internal Revenue Service July 5, 1989.

A native of St. Louis, Missouri, Mr. Goldberg received a bachelor's degree in economics from Yale University in 1969, and a law degree from Yale Law School in 1973, where he was editor of the Yale Law Journal. During 1971 - 1973, Mr. Goldberg served as an instructor in political science and economics at Yale College and also as an assistant dean of Calhoun College at Yale University.

Prior to joining the IRS in 1981 as an assistant to the commissioner of IRS, Mr. Goldberg was a partner in the Washington office for Latham, Watkins & Hills. He served as assistant to the commissioner from 1981 to 1982 and was acting director of the former legislation and regulations division in the Office of Chief Counsel in 1982.

Mr. Goldberg served as the IRS Chief Counsel from 1984 to 1986, the principal legal advisor to the Commissioner of Internal Revenue and Assistant General Counsel for the Treasury Department. Prior to accepting his current position, he was a partner in the Washington office of the law firm of Skadden, Arps, Slate, Meagher & Flom.

Mr. Goldberg and his wife Wendy have four children.

BIOGRAPHY

JOHN D. JOHNSON

John D. Johnson was appointed the Internal Revenue Service's Deputy Commissioner (Planning and Resources)/Chief Financial Officer in December 1989.

As chief financial officer, Mr. Johnson is responsible for the development and oversight of the IRS budget, establishment of financial policies, and the standards and controls over IRS financial systems. In his capacity as deputy commissioner, he is the principal advisor to the Commissioner on strategic management, human resources and facilities management, and organizational planning.

Mr. Johnson began his government career in 1956 with the Department of the Army and later worked for the Office of Economic Opportunity, before joining the IRS in 1970. He held various positions in the IRS National Office in Washington before becoming assistant regional commissioner for accounts, collection, and taxpayer service in 1974 for the IRS Western Region.

After completing the IRS executive selection and development program in 1979, he was named director of the Honolulu District in 1980 and in 1983, became the director of the Boston District. He was named assistant commissioner for planning, finance and research in 1987, the position he held until his present appointment.

A native of Baltimore, Maryland, Mr. Johnson attended Siena College in Loudonville, New York and George Washington University in Washington, D.C. He is married to the former Dorothy Sengebush of Saugerties, New York. They have six children, John, Paul, Kathleen, Christine, Mary, and Rudolph.

FINANCIAL ACCOUNTABILITY

Mr. GOLDBERG. During my confirmation hearing last July, I identified the need to establish greater control over and accountability for IRS budget formulation and execution as one of our top priorities. Eight months on the job has convinced me that this focus was well placed. If anything, I underestimated the critical importance of this area and failed to appreciate the vast improvements necessary to fulfill our responsibilities to the Administration, the Congress, and our nation's taxpayers.

While a great deal more needs to be accomplished in the years ahead, we have made progress on a number of fronts. In particular, we are making a number of changes within the IRS that will improve the way we formulate and execute our budgets, and assure accountability at each stage of the process. We propose restructuring our appropriation to assure "truth in packaging," to better connect the funds we are appropriated with our diverse tax administration activities. Our proposed budget for Fiscal Year 1991, coupled with management initiatives we have under way, represents a first step towards restoring the long-term health of our tax system.

BUDGET HISTORY OVER THE PAST 10 YEARS

The focus of this hearing is on our proposed budget for 1991. Nonetheless, I believe that the best way to begin is by reviewing what has taken place during the past 10 years, and to describe the challenges facing our tax system during the decade of the 1990s.

Between 1981 and 1990. the number of tax returns filed will have increased from 160 million to 190 million, [a growth of 20 percent]. The number of information documents filed will have increased from 600 million to 1.2 billion, a growth of 200 percent. And we will have implemented annual changes in the tax law involving 2381 Code sections—changes that have required substantial modifications to all of our existing forms and instructions, the creation of 81 new forms, significant annual computer programming changes, and material revamping of training programs throughout the IRS.

During that same period, there have been cumulative pay increases of approximately 40 percent. Our health and retirement costs have increased by approximately 200 percent and 90 percent, respectively. At the same time, we have incurred increased costs to help recruit qualified personnel in highly competitive labor markets and inflationary increases in other employee support costs.

In addition, the costs of maintaining our outmoded and often obsolete computer equipment has started to skyrocket, and we are now investing in the long-term modernization of our computer systems. Last, but not least, other federal agencies, notably the GSA and the National Archives and Records Administration, have passed along significant inflationary costs.

Now without getting into the question of whether IRS budgets have kept pace with all of the foregoing, it is clear that our resources have grown substantially. Our budget increased from $2.5 billion and 84,700 staff years in 1981 to $5.5 billion and a projected 115,000 staff years in 1990. This is a 120 percent growth in nominal dollar terms, and a growth in staff years of approximately 35 percent.

At the same time, I think it is clear that we have not managed the growth in our resources as well as we would have liked. Much of the increase in our direct and indirect payroll costs was anticipated and appropriate. Unfortunately, some of that increase was handled inefficiently, or was simply unanticipated. We have accomplished a great deal in many programmatic areas. Unfortunately, we have witnessed declines in productivity in our traditional enforcement functions. Some of our difficulties have resulted from the budget process itself. In other respects, the problems are clearly of our own making.

In any case, we have experienced greater than budgeted direct and indirect payroll costs, slower than anticipated attrition, and greater than budgeted space costs and equipment maintenance costs during the past five years. For the past 15 months, we have been paying the piper. We have a partial or complete hiring freeze in most of our programmatic activities that will not be lifted for months to come: a freeze that has caused significant long-term damage to the health of our tax system. We have a partial freeze on promotions throughout the Service since last November: a freeze that undermines tax administration and is unfair to our employees.

We have made programmatic cutbacks that will remain in place for months to come: cutbacks that have cost, and will continue to cost, hundreds of millions of dollars in lost revenue; cutbacks that have reduced our level of service to taxpayers this filing season. We have been faced over the last two years with gross structural imbalances in our budget, a continuing failure to invest in our future, a failure to provide our employees with the training and tools they need to do their jobs properly.

STRUCTURAL IMBALANCE, FY 1989–FY 1990

By way of elaborating on the structural imbalance point, I would like to call your attention to the chart showing the breakdown of major expenditure categories.

The first column of numbers shows amounts reflected in the budget that you and your colleagues approved, and the President of the United States signed into the law.

The second column shows what, in fact, has and is happening. For example, the budget showed $7.339 billion over a two year period—this is cumulative—in direct and indirect payroll costs. In fact, we have spent $7.8 billion, $500 million more than the budget called for.

At the same time, we have only realized 400 more staff years than the budget called for. So essentially our staffing is on target and our payroll costs are $500 million up. Our space rental costs over $50 million more than what the budget provided for.

Now at the same time, to cover those costs, we reduced expenditures on communications by $53 million below what the budget you approved, and the President signed, called for. We have reduced training by $60 million below what you called for and the President signed into law. We have reduced travel by $44 million below what you approved and the President signed into law. We have cut

discretionary space improvements, the accommodations we provide our employees, by $54 million.

We have cut our ADP operations, which basically involve maintenance. That does not involve systems modernization, but it involves maintenance and keeping our computers running—by almost $170 million. We have cut other expenses, which include printing; postage; supplies; services; expert witnesses by nearly $170 million.

Mr. Chairman, I want to emphasize that these gaps do not reflect the difference between IRS's wishful thinking and prudent expenditures. These gaps reflect the differences between what you and your colleagues, together with the Administration, have believed we should be spending, and what we have in fact spent.

The analogy that I have used on many occasions to describe our situation I believe says it all. "We have been burning the furniture and burning the load-bearing walls to heat the house." If we do not change the way we do business, before too long that house will be uninhabitable. And those that suffer will be the Nation's taxpayers.

MANAGEMENT INITIATIVES IN BUDGET FORMULATION AND EXECUTION

Mr. Chairman, as I will describe shortly, our proposed budget for 1991 will permit us to lift our hiring and promotion freezes; will begin restoring much needed programmatic efforts across the board; will reduce the persistent gaps between our budgets and our reality; will begin to invest in the long-term health of our system. At the same time, however, we must improve the way we formulate and we execute our budgets. To this end, we have taken a number of steps and have a number of initiatives under way. Before turning to the budget itself, I would like to summarize some of these efforts.

ORGANIZATIONAL CHANGES

As a preliminary matter, we have created the position of Chief Financial Officer at the Deputy Commissioner level and are establishing the office of Assistant Commissioner [Finance] as Controller of the Internal Revenue Service. These changes comport with longstanding recommendations by the General Accounting Office. They bring our organizational structure in line with large commercial enterprises. Budget formulation and execution is of paramount importance in the private sector. It should be a similar priority in the public sector, as well.

Our expectation is that the CFO and the Controller will introduce an appropriate measure of internal challenge and function as honest brokers in the budget formulation process. From the outset, they will assume responsibility for financial accounting functions. Over time, they will also assume responsibility for revenue accounting.

With respect to the former, I am pleased to report that after eight years of unfulfilled promises and false starts, we have recently put in place the budget execution module of our financial reporting system. For the first time, we have a decent fix on how owe spend and obligate our funds shortly after those expenditures and

obligations take place. It no longer takes two or three months to learn where we were two or three months ago. We are now developing methods to project short and long-term costs, and will be implementing the financial accounting module of our financial accounting system over the next 15 months.

CHANGING THE WAY WE DO BUSINESS

We are also changing the way we formulate and execute our budgets in two important respects.

First, we will be instituting a series of internal budget "hearings" prior to submitting our initial budget requests to the Treasury Department and the Office of Management and Budget. The purpose will be to assure, from an agency-wide perspective, that we are comfortable with and can effectively justify the amount and allocation of the funds we are seeking.

Second, in the spirit of the times, we are dismantling the Berlin wall that has separated our financial and operational activities. Historically, our so-called "plan managers" [Regional Commissioners, Assistant Commissioners, and the like] have been responsible for delivering the programs we administer—programs ranging from returns processing, information systems development, and taxpayer service to examination, collection, and criminal investigations.

However, they generally have not been held accountable for the budgetary side of their operations. Under a program we started this year and will fully implement for 1991, plan managers will be accountable for, and will have authority over, their financial operations, as well as their programs. As we do a better job of tying together the funds we spend and the programs we deliver, I am confident that we will make far better use of our resources.

COST CONTROL AND QUALITY DRIVEN PRODUCTIVITY MEASURES

As I indicated, much growth in our direct and indirect payroll costs has been wholly appropriate and should have been anticipated. At the same time, however, some of the increases in our direct and indirect payroll costs, as well as our space related costs, were perhaps handled inefficiently or were not planned for properly.

Working closely with our colleagues at Treasury and OMB, we have a number of management initiatives under way to curb unnecessary growth and unplanned growth in these areas, while fully protecting the rights and the opportunities of our rank and file employees. I believe that we are already making headway, and that our efforts will yield significant cost containment dividends down the road.

With regard to employee compensation, Mr. Chairman, if you will permit me to digress for a moment, I believe that enactment of the Administration's forthcoming cost of living pay proposals is an essential first step in restoring sanity to the compensation of federal employees. Indeed, I believe that the need to move towards locality based pay is the most important good government issue all of us face. My only hope is we go down that road before it is too late.

More generally, as I have indicated, we must halt the decline in our productivity. We simply must reverse this trend of the past

several years. I want to emphasize that the cornerstone of this effort is our investment in quality—in doing the job right the first time. Quality experts agree that private sector concerns spend 20 to 30 percent of their resources on rework—on fixing their mistakes.

We are no different. Working in partnership with our colleagues in the National Treasury Employees' Union, we are investing heavily in the quality process. Similar efforts have shown great returns in the private sector. Companies like Xerox, Ford, Motorola, and others are living proof. The Service is starting to realize cost savings from these efforts, and will realize much greater savings in the years ahead; savings that translate directly into quality-driven productivity gains.

As recommended by our Chief Financial Officer and the Deputy Assistant Secretary, and as reflected in the President's budget, we have developed a new budget account format for fiscal year 1991 to better align our accounts and provide a greater degree of accountability.

My written statement describes these proposals in some detail, and we have discussed them preliminarily with the subcommittee staff. Let me simply say that they reflect the view that we must build our relationship with you, and with the public, on the foundation of absolute candor. They represent a genuine effort on our part to define our budget in terms of our primary activities and assure greater accountability in the future.

FY 1991 BUDGET REQUEST

I would like to turn to our budget request itself. Mr. Chairman, I believe that our income tax system, as we know it, is at the crossroads. I think our laws, our regulations, and our administrative procedures, when coupled with our grotesquely outmoded computer systems, are placing an intolerable burden on the American public.

Without question, the greatest challenge of the coming decade is to make the system more workable for the tens of millions of American taxpayers who are willing to pay what they owe, but cannot abide the complexity, uncertainty, and the administrative hassles they face in complying with the law, and in dealing with the Internal Revenue Service.

At the same time, we face an annual tax gap of $80 to $100 billion and carry more than $80 billion of accounts receivable on our books. When measured against the more than $1 trillion we do collect each year, it may not sound like much, but it is, particularly when measured against our hundred billion dollar deficits. We simply must do a better job of closing the tax gap and collecting unpaid taxes.

Our proposed 1991 budget properly and effectively addresses these twin concerns. Now, I know you have heard the line before. The Commissioners come up before your subcommittee. They grit their teeth. They grin a little, and tell you all is well. I had the honor of serving as IRS Chief Counsel several years ago. I have been coached and counseled many times on the "rules of the game."

But I am here to assure you that the 1991 budget is a sound and proper budget for the Internal Revenue Service. We have worked closely with our colleagues at Treasury and OMB in putting this budget together. I assure you that all of us in the Administration appreciate the vital importance of tax administration; its many accomplishments; and its many shortcomings; its difficulties of the past several years; and the challenges that lie ahead.

The proposed budget is not a panacea; it also "bets on the come." It is a tight budget that assumes and is predicated on our ability to achieve substantial cost savings and productivity gains that may or may not materialize. Nonetheless, it provides adequate funding for 1991 and, of equal importance, it reflects a long-term commitment to restoring the health of our tax system.

TAX PROCESSING AND TAXPAYER SERVICE

The budget funds an 80 percent level of taxpayer service to the public and strengthens our efforts to improve the accuracy of our responses to taxpayers' questions. The 1991 budget will continue support of tax processing levels required to ensure that tax returns are processed accurately and refunds are issued timely.

It will also permit us to pursue the numerous efforts we have under way to ease the burden on taxpayers throughout the country—efforts that include a modified short Form 1040–A for use by taxpayers with retirement income; assistance to non-English speaking taxpayers; assistance to the physically disabled; aggressive implementation of the Taxpayer Bill of Rights; electronic filing; improved correspondence; expanded one stop service.

ENFORCEMENT ACTIVITIES

At the same time, the budget will permit us to lift the hiring freeze in our enforcement functions. It also provides $191 million in new funding for compliance initiatives to expand collection and examination activities. I want to emphasize that these initiatives represent the growth we can prudently manage and absorb during 1991. No more. No less.

The first year of this investment will bring in $537 million that would otherwise simply go uncollected. The initiatives will help slow the growth in accounts receivable and reverse the steady decline in audit coverage. Of equal importance, they are an integral part of our long-term strategy to enhance our enforcement efforts and improve voluntary compliance.

The IRS also continues to be a major partner in efforts to combat drug abuse. Last year this subcommittee added additional funds for IRS's criminal investigation activities, and further amounts were added through the Transportation Appropriation Act to support enforcement of federal tax violations and money laundering related to illegal narcotics activity. These amounts have directly strengthened our program efforts, providing basic funding for a program of very high priority to us and to the Nation.

SYSTEMS MODERNIZATION

Mr. Chairman, as you are aware, tax systems modernization has been and remains a major Service initiative. We have the full sup-

port of Treasury and OMB in this effort, which has been designated one of a limited number of government-wide management objectives by the President of the United States. The Administration's budget fully funds the Fiscal Year 1991 increment of systems modernization.

Mr. Chairman, I cannot overemphasize the critical importance of this undertaking. On the downside, we agree with the General Accounting Office that the day of reckoning is just about at hand. We must modernize our systems by the mid-1990s, or face capacity shortages that will seriously jeopardize our tax administration efforts across the board.

Of equal importance, however, is that our existing systems, designed in the late 1950s, preclude us from providing an acceptable level of service to the American public. Needless delays, costly and time consuming correspondence, erroneous taxpayer contacts, and the like are simply unacceptable, but the inevitable by-product of our outmoded computer technology. The only hope we have of meeting legitimate taxpayer expectations in dealing with their government is to modernize our systems.

In this regard, I would like to emphasize that we are making progress on a number of fronts. While modernization will be a costly, difficult, and a long-term effort, we have started "putting points on the board." Taxpayers are already benefitting, and will benefit more during the next 18 months, from our short-term accomplishments.

For example, electronic filing is coming into its own this year. Our current technology-based experiments in Boston and Dallas are improving the quality of our responses to taxpayer questions this filing season, and hold great promise for the future.

Our on-line entity project is being implemented in all 10 Service Centers this spring. It is already generating improvements in our quality and productivity, while reducing the number of taxpayer contacts we would otherwise generate. These and other efforts are paying dividends, and will continue to pay dividends to the American public.

INTEGRITY

Maintaining the integrity of IRS operations is a key element in our administration of the tax laws, and is fundamental to our system of voluntary compliance. Our internal audit and investigative resources are up over 10 percent in 1991 to help assure that programs and personnel adhere to the highest standards of performance and conduct.

STRUCTURAL BALANCE

Our proposed 1991 budget begins to eliminate the structural imbalances I described previously. For the first time in several years, we will start to provide our employees with more of the training and tools they need to properly administer our tax system.

On the one hand, Mr. Chairman, I can assure you with a great deal of confidence that we will indeed spend the funds provided in our 1991 budget in the manner we have indicated. At the same time, however, I have several words of caution.

First, the 1991 budget does not make up for prior year shortfalls. I am afraid that the tax system will continue to pay the price of the 1989 hiring freeze and our failure to provide adequate training and support for our employees for years to come.

Second, as I have indicated, our budget is predicated on productivity gains and cost savings that will be necessary to off-set cost increases that have not been funded, but are virtually certain to occur. While I am confident that we will achieve these productivity gains and cost savings, there are no guarantees. Moreover, unanticipated cost increases, or the failure for whatever reason, to fully fund our 1991 budget request would impede our recovery and further undermine the health of our tax system.

MANAGEMENT INITIATIVES

Finally, I would like to mention a number of management initiatives. The budget contains initiatives which require no new resources from Congress. These initiatives, designed to collect $2.5 billion in 1991, represent a new approach to how we conduct business. In brief, we plan to redeploy existing staff to accelerate the closing of large dollar cases and overage shelter backlog, to resolve critical excise tax and pension plan issues.

Without getting into these initiatives in any detail, I want to emphasize several points.

First, they will greatly improve the way we run our business. In several instances, they are essential if we are to avoid serious difficulties down the road.

Second, we can track, monitor, and measure our performance in these areas. Of equal importance, others in the administration and the Congress will also be able to assess the results of our effort.

Third, there are no guarantees. We believe we can accomplish these goals, but they do represent challenging objectives. Finally, we can and should be held accountable. We expect to be held accountable. In my opinion, Mr. Chairman, that is what good government is all about.

CONCLUSION

I thank you and your colleagues for your time and attention today. I look forward to working with you, Mr. Gunnels, and Mr. Smith in the months and years ahead. This concludes my testimony. We would be happy to answer any questions you or other Members may have.

Mr. ROYBAL. Thank you, Mr. Goldberg for a very effective statement. I hope the same statement was made to the Administration, to Treasury, and to OMB. Because, if I remember correctly, this committee in the past several years has funded the IRS at respectable levels which have, in many instances, been more than the administration. I realize that there are some specific items that ended up with less. But when this committee marked up that bill, it had more money than requested.

What has this added amount enabled you to do that would not have otherwise been done had you not had the money? You presented a chart that I think answers the question. I would like to have that chart then appear in the record at this point.

[The information follows:]

INTERNAL REVENUE SERVICE: STRUCTURAL IMBALANCE, FY 1989–FY 1990

[Dollar amounts in millions]

Expenditure category	Amount reflected in budget approved by Congress and signed into law	Amount actually spent	Actual exceeds (less than) budget by
Direct and indirect payroll costs	$7,339	$7,830	$491
FTE—positions	229,396	229,850	454
Rent of space expense	$708	$761	$53
Communications	$466	$413	($53)
Training	$181	$121	($60)
Travel	$220	$176	($44)
Discretionary space improvements	$114	$60	($54)
ADP operations	$670	$503	($167)
Other (printing, postage, supplies, services, expert witnesses, et cetera)	$997	$831	($166)

RAISING AN ADDITIONAL $40 BILLION

Mr. ROYBAL. On January 2, right on the front page of the Wall Street Journal, you are reported to have said that you can raise the additional $40 billion if you had more people and better people. How many more people, and how long would it take to raise the additional $40 billion?

I ask that question because I thought that the additional amounts that this committee put in was for that specific purpose.

How much have you collected up to now? And how long will it take to collect the additional $40 billion.

Mr. GOLDBERG. Mr. Chairman, I would like to talk first about the future and——

Mr. ROYBAL. All right.

Mr. GOLDBERG. And then with respect to what we have done over the past several years, I would like John and Charly to comment on exactly where we have been. The point that I was trying to make is that we need to stop thinking about the way we run the Federal Government in wholly short-term, "Let us do it all this year", frame of reference. We are a business. We have got to think for the long term here.

And if we are willing to make a long-term investment in systems modernization, in building up our collection and our enforcement efforts. If we are willing to remove the complexity and the ambiguity and get away from the repeated annual law changes that drive the IRS and taxpayers alike up the wall; and if we are willing to move towards locality based pay in our high cost of living communities; and if we are willing to invest long-term in this Federal Government and this tax system; if we are willing to look at appropriate legislative changes in areas such as independent contractors and withholding and the like, then I believe over the long term we can make major, major inroads in a tax gap of $80 to $100 billion.

It is not going to happen this year. But if we are willing to go down that road, those are the kind of results we will achieve over the long term.

OUTMODED COMPUTER SYSTEM

Mr. ROYBAL. Alright. We have talked about improvements almost every year that you have come before this committee. And every year, we hear the words "outmoded computer system." Now if IRS does not have state-of-the-art computers, who does in the Federal Government? Or let me put it this other way. Why do you not have the best?

Mr. GOLDBERG. Well, Mr. Chairman, we are moving in that direction.

Mr. ROYBAL. How long is it going to take?

Mr. GOLDBERG. Well, it is going to cost $6 billion and take another eight years to get it done. But I think the important point to make is this is long term. We have got to start thinking that way. But it is starting to happen. Real things are happening to the benefit of the American taxpayer this year and next because of the investments—thanks largely to the efforts you and your colleagues have made—in the computer system.

And what this system does is it gets us out of a mode of writing letters back and forth for months and months that is inefficient and wasteful from our standpoint. And it is a real pain in the neck to the American taxpayer. But if we are willing to stay the course and make the investment, we are going to see returns this year and next, and I think we will see ourselves a substantially completed project by the mid to late 90s.

ADDITIONAL IRS PERSONNEL NEEDED

Mr. ROYBAL. All right. In your statement you made reference to more people and better people. How many more people do you need?

Mr. GOLDBERG. Mr. Chairman, that is what we did this year, working with our colleagues at OMB and Treasury, who asked the same question you are asking, "Fred, where are you going to get that $40 billion? We want it. How many people do you need?"

Mr. ROYBAL. Sure.

Mr. GOLDBERG. The answer we gave is, I believe one of the biggest problems we had in this agency during the mid 1980s is we tried to grow too fast. And when you try to hire too many people and try to absorb them too quickly, you are going to lose your productivity, and you lose control of the agency. I mean, it is a very difficult thing to do. The growth that we have provided for in 1991 reflects the number of additional personnel we believe we can prudently absorb so that we can manage the growth of our process.

And I sat down with these career folks from the Internal Revenue Service who are running this agency saying "Take more." I was not saying it just because of me. I was saying it because of Treasury and OMB. They looked me in the eye and said, "Fred, this is what we can prudently manage. If you throw two or three or four or five or 10,000 bodies in here in one year, you are not going

to be able to absorb them. You are not going to be able to train them." And you have got to spread it over the years.

And if you will note in the President's budget, they specifically state that this is part of a three year strategy—a long term strategy. And the numbers we have here are what we can absorb. Can we absorb more the following year? Absolutely. And the year after that, absolutely.

LONG TERM STRATEGY FOR MODERNIZATION

Mr. ROYBAL. This will be a long-term program. You stated that it would take eight years to bring up your computers to a desirable level. It will take just about that long to get the personnel in place that is needed to keep up with that new technology. Is that about correct?

Mr. GOLDBERG. I think the two will feed together as we build our technology. And I want to emphasize over and over again, it is not as though we are going to be sitting in a living hell for the next years and then all of a sudden we are in utopia. We are showing progress each year.

Mr. ROYBAL. I understand.

Mr. GOLDBERG. As we show that progress, that technology in many respects will let us redeploy our existing employees out of keypunch, paper processing work into efforts like additional service for taxpayers, into enforcement efforts; whether it is information returns or whatever. So we are building that over a period of years.

Mr. ROYBAL. And it takes eight years before you reach a satisfactory level?

Mr. GOLDBERG. Certainly on a——

Mr. PHILCOX. No. First of all, I think we are maintaining a satisfactory level of service now. What we would like to do is——

Mr. ROYBAL. But you are not.

Mr. PHILCOX [continuing]. Do the kind of level of service that you see from a private sector firm.

Mr. ROYBAL. I do not think you are maintaining a satisfactory level of service. And this chart does not really show it. But if you had been maintaining a satisfactory level of service, your budgetary request would not be as high as it is. There would just be a cost of living component in this request and have perhaps an amount to keep equipment in reasonable repair and things of that type.

Mr. GOLDBERG. Mr. Chairman, we are having this year one of the finest filing seasons we have had, and we are having it with that equipment. And that is a tribute to 120,000 career IRS employees who have been keeping that stuff together as best they can.

Mr. ROYBAL. Sure.

Mr. GOLDBERG. I think what Hank was referring to is we fully expect, and are absolutely committed to making that filing season work the way it should every year. But in terms of ultimately getting to a level where you can fix taxpayers' problems on the phone instead of by letters; where we can pull up tax returns that have been electronically stored, rather than going to a federal records center—Yes. It is going to be eight years to get there.

Mr. ROYBAL. That is what I am trying to get at. See, there is a time limit, because I have been on this committee many, many

years. And I went through this the first time I sat on this committee, talking about exactly the same thing. I was not the Chairman then. But I listened. It is exactly the same argument. The same thing was said, only more eloquently this time, but the same thing.

Mr. SKEEN. That is a tribute, Fred.

Mr. GOLDBERG. I was not sure. I was not going to ask.

Mr. ROYBAL. And what I am saying is that there has to be a plateau somewhere.

Mr. GOLDBERG. We said publicly the system's modernization effort is going to cost about $6 billion. Part of our effort to clarify the appropriation process is to lay that out so everybody knows what those numbers are, and that those are capital investments that need to be made over time.

IMPLICATIONS OF MODERNIZATION

Could I tell you a story? There is a piece that we talked about, a $100 million investment in one of the systems modernization efforts. And somebody said, "Well, that is going to let us send out 400,000 fewer letters to taxpayers." That means we are going to spend $25 million a year less fixing those letters. So in four years we get a payback.

There is another side to that, Mr. Chairman. If 400,000 fewer Americans get letters from the IRS and it takes each one of those Americans 10 hours to deal with that letter, you have taken 4 million hours off the backs of the American people. And if the American people's hours are worth $25 apiece, you have got $100 million the first year in the payback on that effort. And that is why this investment is so important. And as I say, we are showing returns, but we have got to stick with it in its eight years.

Mr. ROYBAL. I do not think there is any disagreement with regard to the investment having to be made. I think we agree. Where there seems to be some disagreement is based on perhaps, both Mr. Goldberg and myself being very impatient. And we think that these things should have been done yesterday, instead of being done tomorrow. That I think is the issue.

PUBLIC COMPLAINTS ABOUT IRS

There is one thing, however, that I wanted to discuss before I move to Mr. Skeen, and that is that complaints continue to come in with regard to the attitudes of the IRS people who meet the public. And we talked about that last year and the year before, and so forth. But I see that in training, here you have reduced or you have spent less than the amount appropriated. Of $180 million appropriated, you spent $121 million, for a savings of $60 million.

It seems to me that that $60 million could have been well spent if the present employees of IRS received better training, particularly with regard to meeting the public, with handling the public. The problem is internalized oppression, that sometimes is manifested in the attitudes of the individuals who deal with the public. I think these are things that should be taken into consideration so that the public itself does not have to be calling us. We also spend a lot of time talking to the public about these things.

Mr. GOLDBERG. Mr. Chairman, I wholeheartedly concur.

As I have said, I view this as the symptom of a business that is burning the furniture. We have to invest in the training. Now, we did not choose to do this because we thought this was a better answer. We have got to run the filing season well. We have got to pay our employees. And because of the way the system works, you have no choice but to take it out of these other areas. And that is a big mistake. I think we have done very well of managing in very tough circumstances for two years.

This budget gets us out of that posture. It restores training to the level that it ought to be. And as I have said, I think the biggest challenge in this system for the next 10 years is making it easier on the American public.

Mr. ROYBAL. All right. But you——

Mr. GOLDBERG. And a big part of that is training.

Mr. ROYBAL. But you will spend it?

Mr. GOLDBERG. A big part of that is training. And it is not just training in the rules. It is training in Taxpayer Bill of Rights. It is understanding you may need to take the individual's money, but you do not take his respect, and you do not take his dignity.

Mr. ROYBAL. One of the big complaints is that, "Look, I go before the Internal Revenue, and I am guilty. I have to prove my innocence." The attitude is such that you completely deflate one's ego when one goes before the IRS. This is something that is constantly being told to me and to other Members of the Congress—complaints that come directly from our own constituency. I realize that this is something that is not going to be fixed overnight. But if we are working on it, at least we can say we are trying.

Mr. GOLDBERG. That is right. And I want to sit here and look you in the eye and tell you that that money we say we are going to spend on training, we are going to spend on training, because I share your views.

ADP SYSTEM MODERNIZATION

Mr. ROYBAL. Mr. Skeen?

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. Goldberg, and those with you, we appreciate this opportunity. This is probably one of the most interesting sessions that we have in the entire gamut of hearings, and I wanted to compliment you on not only your dedication, but your fervor in laying this situation out. However, I have been on this committee many, many, many years, like the Chairman; just give me one many, but some six years. And there is a little bit of deja vu in this process.

Because what we have been doing since I have been on the committee is exactly as you have exhorted us to do. We have exceeded the administration's request, I think almost every time. In the beginning, we talked about something like 4500 new field auditors. I do not know whatever became of that program, but I understand and you have illuminated the problem exactly, the training and so forth.

I want to go back to the systems processing, the ADP system. We have been harping on this modernization, getting ahead of the curve, and so forth. Has it improved over the last six years to any degree? Have we made any progress?

Mr. GOLDBERG. Yes, sir. I think we have made considerable progress. And I think that to pick one example, electronic filing is getting a lot of press this year. We had set an internal goal of getting up to 2 million electronically filed returns. We are already at 2.5 million, and it is going up. Now, that gets touted in the public as a quick refund, but there is something much more important by my lights about it.

What is important about it is when the taxpayer files electronically, they know up front that it worked. It is a quality control measure. It is done right. And if it is not right, you fix it right on the spot. If you file your returns by paper process, almost all of them are right, but some of them are going to be wrong. And if they are wrong, and three months later you do not have a refund you wonder where in the hell your return got lost. It is a quality control contribution of enormous importance.

As to the experiment in Boston that I alluded to, which is part of our effort, we are getting a lot more answers right a lot of the time. And that is a big help. The experiment we have in Dallas, the same thing. What we call the on-line entity project, which is nothing more than letting us find out the taxpayer's name, i.d. number, and address. Twenty-five million Americans, they die, they move, they get married. Our systems cannot deal with that, and it takes time to put it back together.

Mr. SKEEN. I understand. It is very complex.

Mr. GOLDBERG. Well, on-line entity lets us fix it up front. So we send out fewer notices. You get a bill. You pay the check. And then you get another notice and another notice. And you say, "Where in the hell is my check?" Well, it turns out your spouse sent in the check. She used her social security number instead of yours, and we have been trying to chase this thing with a bunch of paper. On-line entity lets us fix it in the machine quickly. So we are taking those problems out of the system.

We are seeing a 30 to 40 percent improvement in the quality of the work going through the filing season this year. Yes. It is happening. I think it is real. And I think it is happening. But I think, as the Chairman said, it is a long-term process, and we have got to stay on the road. But there is payback, and it is right now.

Mr. SKEEN. Well, there is no question about it being long-term. And, we are not going to abrogate any responsibility for getting further down the road with it, because I think that is absolutely essential. But that has been the tone ever since we started this thing, and what I want to be reassured is that we are at least moving the pea up the hill a little bit.

TAXPAYER RELATIONSHIPS/TAX GAP

And I think that in the area of taxpayer relationship in the last six years, the agency has done an outstanding job. You have a high return just thanks to the way the system is basically constituted. You are getting 94 percent return voluntarily. And that is not too bad. I was delighted to read in the paper that somebody besides us on this committee finally discovered that we have had a tax gap. We have been talking about this tax gap, and it was $80 billion

when we started out, or when I started out. And then every year I have asked the same question, "What is the tax gap this year?"

And somebody misreported it somewhere down there, because it is about $150 billion. If you put the illegals with it, and then when we estimate them, you are talking about $150 billion that we are leaving on the table. And I think that is something to get excited about. And you are excited about it.

Mr. GOLDBERG. Sure am.

EARMARKING MONEY FOR SYSTEMS MODERNIZATION

Mr. SKEEN. Well, we want to be excited with you, and we want to help you get this job done. And we have been trying to put the money in it. For instance, last year in our debates about the appropriations for the systems modernization, we choose not to earmark it specifically for that purpose. What has happened with those funds?

I understand that personnel is of premier importance to you, and you have emphasized that in your testimony. And I think you are right on line. If you do not have those people working over there, you do not have a system. I do not care how much data processing or bytes that you have. You can take all that junk and throw it out the door. If you do not have those people there, and if they are not quality people and dedicated people, you do not have a system.

But I would like to know. We did not ask you to earmark that money for it. But how has it been spent?

Mr. GOLDBERG. John?

Mr. JOHNSON. In 1990, sir, despite all of our crises, we have not diverted a penny of tax systems modernization money. It is——

Mr. SKEEN. It is going into modernization.

Mr. JOHNSON [continuing]. In tax system modernization, and will stay there.

Mr. SKEEN. Excellent.

Mr. JOHNSON. We are absolutely committed to that. And under the new appropriation structure, you will see that tax systems modernization is a budget activity so that you can track that very distinctly in the future years. But our goal is, what goes into TSM is protected.

Mr. SKEEN. The thing I am concerned about is that we have to have the personnel and we have to have the systems. And I think you emphasized both arms of that thing. And I just want to be sure that we are not robbing from one to maintain the other.

Mr. JOHNSON. No, sir.

Mr. SKEEN. We have not been all that loose with the cash. However, IRS has been treated probably better than any agency that I know of, as far as this committee, because we have pumped even extra money in the thing. And not to pat ourselves on the back, because we think it is so viable to your program.

Mr. GOLDBERG. Mr. Skeen, I think you should pat yourself on the back. I think this committee has set a singular example in appreciating the importance of the tax system of this country. And I applaud you for it.

Mr. SKEEN. Well, we applaud you, because together we have a tough job. There is $20 million that was identified in the budget for the war on drugs. And I have a little note from one of my staff over here that says, "The drug amendment giveth, and the drug amendment taketh away." And according to the sainted drug amendment, you are kind of lost in the total shuffle. How are these monies to be spent, and how are you handling those? Did you come out loser or winner in that?

Mr. GOLDBERG. Well, in terms of net net dollars, we came out a loser.

Mr. SKEEN. You came out loser.

Mr. GOLDBERG. Net net dollars. But on the other hand, the chart that we have up here shows the Internal Revenue Service involvement in organized crime drug enforcement task forces. And as you will note, next to the Drug Enforcement Agency, the Internal Revenue Service is the major participant in joint task force drug enforcement activities. We bring a unique talent and a unique expertise to the war on drugs.

[The information follows:]

Mr. SKEEN. You are absolutely essential.

Mr. GOLDBERG. One of our greatest recruiting posters is a picture of an old guy, and it says, "Only an accountant could have caught Al Capone." And there is some truth in that. And I think we——

Mr. SKEEN. That is what built the FBI.

Mr. GOLDBERG. That is right.

Mr. SKEEN. Do not tell.

Mr. GOLDBERG. We are very involved in it. We are significantly increasing our involvement again this year in the 1991 budget. And it is something that is real important.

FEDERAL ELECTIONS COMMISSION

Mr. SKEEN. In connection with the Federal Elections Commission, our understanding is that they are running in a deficit position. How serious is the problem? And any suggestions for a remedy? Where are we on that? You handle the collections on that?

Mr. GOLDBERG. We handle the collections. They administer the program. As you know, it is a voluntary check off. And there has been a very slow, very gradual decline. But there has been some decline. It is too early this year to really predict. I think that our responsibility is to make sure folks understand it does not cost them any more in taxes.

Mr. SKEEN. But you are involved in the program——

Mr. GOLDBERG. Yes we——

Mr. SKEEN [continuing]. Of making them aware of this.

Mr. GOLDBERG [continuing]. Have the check off and collect the dollars. And we need to be sure we get the education out there.

TAX GAP

Mr. SKEEN. On this tax gap that we talked about, what is your estimate now? Are we pretty well correct and agreed that if you count all of the unreported and uncollectables, it is something over $100 billion?

Mr. JOHNSON. Mr. Skeen, as you correctly observed before, our previous report was on the legal tax gap, which is 84.9. We have——

Mr. SKEEN. I always like to pull the illegals in there too, because if you are going to enjoy illegal activity over there, you ought to at least pay the taxes on it.

Mr. JOHNSON. That is chapter one of a multi-chapter book. We have subsequent chapters coming out on illegal income, on trust fund gap, and estate and gift tax. You are going to be able to take a look at the total array of tax obligations and say that is the gross gap for the first time in a good number of years. We did the last estimate of that sort——

Mr. MURPHY. Late 70s.

Mr. JOHNSON [continuing]. In the late 70s.

Mr. SKEEN. Late 70s. Well, I do not want to see it keep increasing. That is the worrisome part of the thing.

QUALIFIED RETIREMENT PLANS

One last question I have deals with the 25 percent testing on qualified retirement plans, and it is a specific question. And I will just submit it to you. If you would give me a specific answer, it has a lot to do with retirement plans that we have. And we have been getting a lot of inquiries about them. So I will submit that to you. Thank you very much for your responses.

Mr. GOLDBERG. Thank you.

PROPOSAL ON STATES COLLECTING FEDERAL TAX LIABILITIES

Mr. ROYBAL. Mr. Sabo?

Mr. SABO. Thank you, Mr. Chairman. Mr. Goldberg, welcome.

Mr. GOLDBERG. Thank you.

Mr. SABO. I have a sort of a question, but I would not want to finalize your answer today. It is something I would like you and your staff to think about. The State Senate Majority Leader in our State was in my office a few weeks ago and he says, "How would you like an idea that would raise you some money, that would not cost the Federal Government anything, and you would not have to raise any taxes to get?"

Mr. GOLDBERG. Where do we sign?

Mr. SABO. And I said, "That sounds great."

Mr. SKEEN. It is the drug trade.

Mr. SABO. Joe likes this one. He said, "In our State, we also have an income tax. We also have enforcement." He said, "I am convinced that in most states like ours, if there were some system where we received a portion,"—and he suggested 50 percent—"if we received 50 percent of uncollected federal tax liabilities for going out and collecting them, we would significantly increase our enforcement activity." He said, "It would not cost you a penny. You have got this big gap." He says, "I think we would make money on it. And whatever you make is net."

FEDERAL-STATE TAX LIAISON RELATIONSHIPS

Mr. GOLDBERG. I would need to get back on the concept, but I think there is a point there that we believe is of vital importance, and that is the relationship between the states and the Federal Government in the area of tax administration. It is something we worry about all the time. We pay a lot of attention to it. There is an enormous amount more we can do to achieve economies of scale in one form or another.

In our systems modernization effort, we are now working very closely with the states to be sure that what we are doing and what we are investing in is compatible with what they are doing and they are investing in. In terms of sharing information with the states to facilitate tax law enforcement, we are doing a lot of it. We can do some more. And I think that in terms of the burden question, there have got to be ways to make it easier for taxpayers to deal with both state and federal taxes, than what we have right now. Obviously, it is not the Federal Government's role to dictate state taxes. And we can still work very closely together.

Electronic filing. We are working with some of the states now to see if we cannot piggyback on electronic——

Mr. SABO. I know it is——

Mr. GOLDBERG. There are all sorts of good things we can do.

Mr. SABO. Yes. I want you to think about this, because the bulk of the states have income taxes. I do not think there is a confidentiality issue involved, because at least in our state we have to file a copy of our Federal income tax with them. So for those who are following the law, they have it. I suspect if there were not income tax enforcement folks in the state, you might or might have some confidentiality problems. I do not know.

FEDERAL/STATE AGREEMENTS

Mr. MURPHY. Mr. Sabo, as you probably are aware, we have state/federal agreements that the Commissioner enters into——

Mr. SABO. Yes. I know that.

Mr. MURPHY [continuing]. Which permits that. But it is interesting in raising this issue. With the many years that I have been around, I can remember most years it is the other way around, that IRS is being encouraged to administer the tax laws, because we are so decentralized. You have some states that do not have income tax provisions. We are everywhere.

Mr. JOHNSON. It is interesting to look at it from the other side.

Mr. SABO. I know there is that cooperation. I think some filing back and forth of information. This would basically be saying expanded. I assume one would not make it the year the taxes are due so that if they go out in July to find something that was due in April, that would not fit, but maybe in the following calendar year.

Mr. SKEEN. In delinquent accounts.

Mr. SABO. Pardon me?

Mr. SKEEN. In delinquent accounts particularly.

Mr. SABO. Yes. Yes. His thought was simply that we could make it be money well spent on their part, and whatever we got would be net fee.

Mr. GOLDBERG. Okay.

Mr. SABO. So I hope you think about. And if you have some folks that can deal with technical questions, we have sent letters on the question to Ways and Means, so we are trying to get a bill drafted. And I hope your folks that deal in this area would think about it, and how one deals with the mechanics.

Mr. GOLDBERG. Good. We will do so.

Mr. SABO. Thank you.

Mr. ROYBAL. Thank you, Mr. Sabo. Mr. Wolf?

CONGRESSMAN WOLF'S OPENING REMARKS

Mr. WOLF. Thank you, Mr. Chairman. I want to welcome Mr. Goldberg. I have a couple of questions and a couple of statements based on what you the Chairman said and Mr. Skeen. It really does seem like most of what you said, perhaps with a little different style, has been said up here before. I have not served on the committee as long as the Chairman has, although I have as long as my leader on this side, Mr. Skeen, has.

And I remember the day that your predecessor testified, I was so impressed. I lost that feeling as he went on for a period of time and I really did not feel very good about him, frankly, to be honest. Let

the record show that. So, I think it is a little bit of a different potential of a—I guess we have got to be careful it is not an acting situation where people come up and I have worked in administrations before and I know how testimony goes.

And you sit around and you talk to your staff; you know who the Members are and what their hot buttons are; what their situations are; and this "phrase" will go over very well; and that "phrase" will not go over; so we will not use that. And everyone packs their bags and goes back, and you feel pretty good that it went very well. And sometimes there is an element of misleading in it. Other times it is in a sincere effort to try and not be successful. But I have heard, and I agree with what the Chairman said and Mr. Skeen said.

Also when you were chatting, it was almost like you were urging this committee to be responsive when I thought it seemed to be the other way around. For a number of years, the committee was urging the Department, as well as the Service, to be responsive and was getting lobbied the other way. If you were to place your statement next to what was done in the past four or five years, it would almost look like there were two different worlds, and it was no connection. And what happened? Did somebody drop off the face of the earth and then come back?

CONCERNS OVER IRS BUILDING CONSOLIDATION IN MARYLAND

The second point I would like to raise, as you know, I was very disappointed and opposed to the move of IRS to Maryland. That issue is over. I am not going to revisit it and beat a dead horse, although I would like to ask a couple of questions and make a statement. I would like to request that you meet with the employees that are going to move. I have received some letters. They are still feeling that they are being manipulated and not being consulted. The letters are very, very recent. The tone continues to be one of great frustration.

And I would like to ask for the record several things. One, if you personally would meet with some of the representatives. That is the first. I would like that. Would you meet with some——

Mr. GOLDBERG. I would love to.

Mr. WOLF [continuing]. Of them, sir? You have an outstanding staff. I think the career people down there are outstanding. If you could designate somebody at a high level to be responsible for this on a——

Mr. GOLDBERG. [Indicates Mr. Johnson.]

Mr. JOHNSON. Thank you, sir.

Mr. WOLF. This will be a very difficult move. And all the talk about how much caring and my comments really are not directed toward you. You are new on the job. But all this caring about employees. This move will be very, very difficult. And I will share with you and Mr. Calhoun, I would like it if you could come out and——

Mr. JOHNSON. Johnson.

Mr. WOLF [continuing]. Sit down, and let me share with you some of the concerns and some of the individual cases and problems. Some have even suggested that they are leaving the Service.

Mr. JOHNSON. I would be happy to meet with you, sir, as soon as your schedule permits.

Mr. GOLDBERG. Mr. Wolf, you have made clear to me privately and publicly your deep concern about the employees, and I think you are right on the mark. I think that our employees are—we could have all the damned machines in the world, and it is our folks that matter the most. And I think we share that concern. It is going to be difficult, and I think our responsibility is to do it as well, and make it as easy as possible as we go. And you have made that clear, and you are right.

Mr. WOLF. And you can come on by and——

Mr. JOHNSON. Yes, sir.

LENGTH OF TENURE OF IRS COMMISSIONER

Mr. WOLF [continuing]. We can share that. I think another problem—and again this does not deal with you—is that the career people have had to carry the agencies to a certain degree, and there have been too many commissioners. And they stay for too short a period of time. And frankly, I think the secretary when he interviews people ought to ask them are they prepared to stay the course. Are they prepared to follow through and stay four years? I believe the President will be here for eight, but I think it is not unreasonable to expect people to stay for four years.

And what we have seen in the past is people coming in and having this aura of having been the IRS Commissioner, and then go out downtown and practice law and take all this institutional knowledge with them, which is fine, but not stay for a long enough period of time. And I believe that the secretary ought to be asking commissioners and people who come in to stay for a long enough period of time. The career people have forgotten things that many times the political appointees will almost never find out unless they are there for a year or two.

And I think it is very, very important. We are seeing too much of a turnover. And I think that would be something that I can address to the secretary. But commissioners and political appointees should stay for a long period of time and not just for one or two years.

Mr. GOLDBERG. Mr. Wolf, the secretary asked the question, and the answer he got from me was in the affirmative.

Mr. WOLF. So you will be here until?

Mr. GOLDBERG. At least four years.

Mr. WOLF. Wonderful. That is great. And hopefully, if you do a good job——

Mr. GOLDBERG. I need to be careful with the other side of the room here about how long I predict my tenure. And then I think if you look at reports, for example, of General Accounting Office and others look at it, when you are talking about eight years to modernize your computer systems, I think that continuity and long-term management is a very challenging question in the government. And I think we all need to look at maybe different ways of getting to what you are identifying, and I agree with you, is a very real concern.

Mr. WOLF. Well, I am really pleased to hear you say that, because I know what your background is. You are a young man. Even after that period of time, whether it be four or seven, you will still be a young person. And I think that——

Mr. GOLDBERG. Well, I guess should also point out for the record that my wife and children are not in the room today, so I speak freely as a free agent.

AMOUNT OF MONEY NECESSARY TO ELIMINATE TAX GAP

Mr. WOLF. I think that length of time makes a difference. The third question is, what would it honestly take if there were the ability financially, which there obviously is not right now, to deal with this tax gap question, to collect whether it be the 80 or the 120 or the 150? How much resources and how much effort would it honestly take to do that?

Mr. GOLDBERG. I believe that there is so much money out there right now that the limit on our ability to collect is a question of our ability to prudently and carefully manage our growth. And I think that it is not a question of could you throw another 10,000 or 20,000 or 30,000 revenue agents into the program—that would be a horrible mistake for all manner. It would be the worst thing you could do. I would rather do nothing than do that. I think that is a question of an overall long-term investment in the health of the tax system.

And I am saying this is not just the Commissioner of Internal Revenue talking. I believe this is the views of the Department of Treasury, and it is the views of this Office of Management and Budget that the health of the tax system is essential to the health of the Federal Government, and we ought to do it right.

I think that in terms of paying for it, my own personal judgment is that over time, as we see the returns from systems modernization payoff in the form of productivity gains that we realize there, we will self-generate the kinds of resources necessary to make the investment over the long term in enhancing our services to taxpayers and enhancing our enforcement efforts across the board.

I also think that there are some studies coming out now that are starting to suggest that the revenue impact of IRS enforcement efforts is not limited to the dollars you get from the taxpayer for that one year. The real impact is long term. If that taxpayer gets back in the system and starts paying what they owe, that is a multi-year revenue impact. If we do it well, and we do it with respect for the taxpayer, and we do it the right way, that has a ripple effect.

There are some folks at MIT and Cal Tech that are doing some studies that are suggesting that, if we are doing it properly, there is a significant indirect impact of our enforcement efforts in terms of improving voluntary compliance. So I think there is a lot of promise there. I think it requires a long-term investment. And I think it requires that we manage our growth prudently and efficiently. And as I have said, we have taken a lot of steps to do it better in the future, and I think we can do it better in the future.

U.S. TAX COLLECTION RATE VERSUS OTHER COUNTRIES

Mr. WOLF. How is our collection rate in the U.S. comparable with, let us say, Great Britain and France and Japan?

Mr. GOLDBERG. I cannot give you a number, but we are best in the world, in my view.

Mr. WOLF. We are the best?

Mr. GOLDBERG. Oh, absolutely. I think that we have the finest tax system anywhere. And I think that when you go to the group of four meetings with our colleagues from Britain and France and Germany, or when you meet with colleagues from Japan and Australia and the like, we are viewed as running the finest tax system in the world.

Mr. WOLF. That is good.

Mr. GOLDBERG. But as I have said, I think we are at the crossroads. And I think that we need to make collectively the choice that goes down the road to sustain that health. And I think if we do not make that choice, we are going to have problems in the years ahead.

CHILD CARE

Mr. WOLF. Two last questions. Has IRS taken advantage of language that this committee put in years ago on SLUC rate charges and GSA to open up a child care facility? Can we tell——

Mr. JOHNSON. Oh, yes, sir.

Mr. WOLF. How is that going?

Mr. JOHNSON. I believe, sir, that in terms of agencies, we are one of the leading agencies in child care facilities around the country. In fact, this year even with the budget crisis and so on, there are two more coming up very soon.

Mr. WOLF. Where will they be?

Mr. JOHNSON. One is in the southeastern part of the country, and I will have to provide you with——

Mr. WOLF. Is one of them not a federal——

Mr. MURPHY. Martinsburg.

Mr. JOHNSON. Martinsburg, West Virginia has one.

Mr. WOLF. How many do you have total?

Mr. MURPHY. I am thinking 13, but I think it is even more than that.

Mr. GOLDBERG. We can provide you that information. We are, I believe, a leader in that effort. It is very important. We are finding, frankly, that we are running into something of a difficulty in that area in the sense that the prices we have to charge can, on occasion, price out of the market our lower graded employees, which at least I personally believe should be a primary target of the effort. And I think that government-wide we ought to be looking at that program to see how that is working.

[The information follows:]

NUMBER OF IRS CHILD CARE CENTERS

IRS currently participates in 20 child care centers throughout the country. Eight of the centers were initiated solely by IRS and are located in: Andover, Massachusetts; Covington, Kentucky; Hartford, Connecticut; Houston, Texas; Laguna Niguel, California; Ogden, Utah; Philadelphia, Pennsylvania; and Washington, D.C. Twelve are multi-agency efforts where IRS was the lead agency. These are located in: Atlan-

ta, Georgia; Austin, Texas; Baltimore, Maryland; Des Moines, Iowa; Detroit, Michigan; Cleveland, Ohio; Cincinnati, Ohio; Honolulu, Hawaii; Indianapolis, Indiana; Kansas City, Missouri; Louisville, Kentucky; and Pittsburgh, Pennsylvania.

Mr. WOLF. Are the ones that you have parent-run? Do the parents serve on the board?

Mr. JOHNSON. Yes, sir. Generally, the way they are organized is we provide the facility and some of the initial equipment, and then the parents organize themselves into a non-profit corporation, and as a separate corporation administer the affairs of the child care center. We do not directly administer the child care centers, nor do the directors on the site. Even with that kind of arrangement with the free space and the other kinds of assistance that we can give them, nevertheless child care centers are very teacher/child oriented, in terms of its 1:3, 1:4 ratios.

A lot of them are having trouble finding enough people at the right kind of salaries. So they have been nudging a little bit on the outer side of their budgets, which is what the Commissioner is referring to. Many of them have, for example, gone to scholarship programs so that some employees who could not afford the full rate get a reduced rate. For the record, we can give you the list of all the centers, and the basic operating rules of them. But we are indeed very, very proud of each and every one of the centers.

Mr. MURPHY. There is one at 1111 Constitution, Mr. Wolf, if you would like to come over and take a look at it. The other point I would like to make is both GSA and the National Treasury Employees Union of IRS have been very active and supportive. There have been a lot of cooperative efforts in trying to get that going.

[The information follows:]

LOCATIONS OF IRS CHILD CARE CENTERS OPENING IN 1990

IRS has plans to open child care centers in Martinsburg, West Virginia, and in Atlanta, Georgia.

Mr. GOLDBERG. That is part of a broader effort getting at personnel. I think we are doing good and better work in the part-time employment area and the job sharing area. If you look at the demographics, I think the child care is very important, but everything at least I read says that elder care is of equal importance and would become of greater importance in the future. And there are questions of marrying child care and elder care activities together. And I take that very seriously. I think it is a very important part of what we do, and it is something we are investing a fair amount of time and effort in.

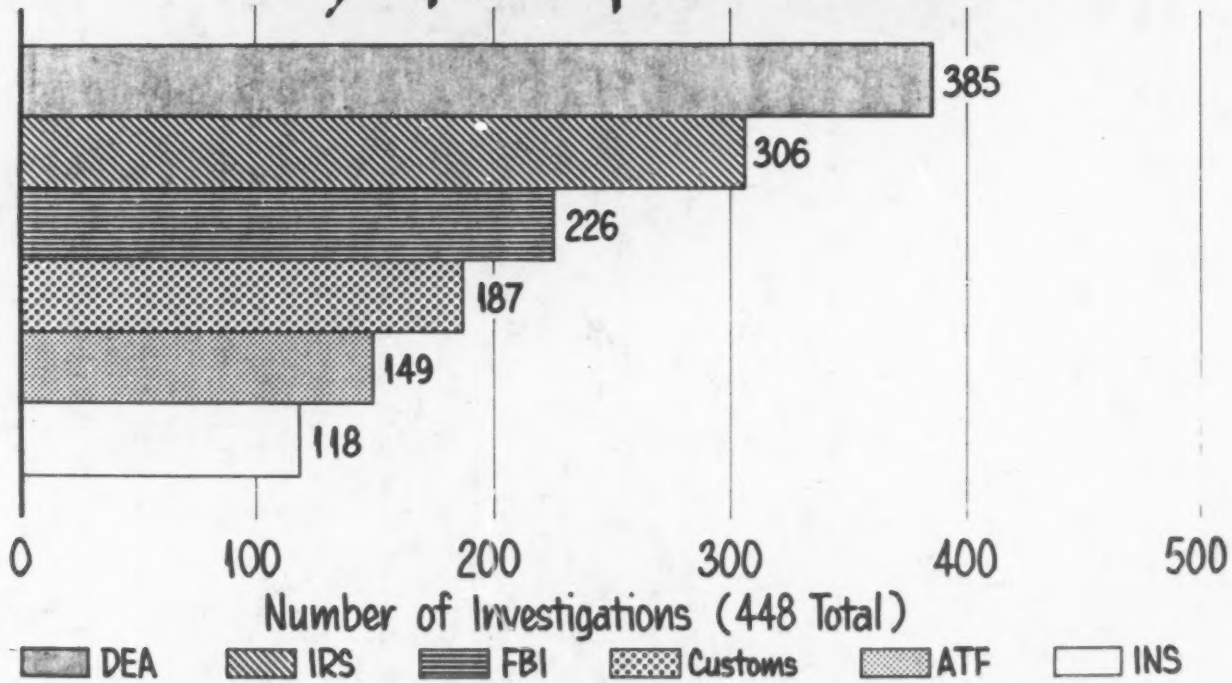
JOB SHARING

Mr. WOLF. That leads me to the last question, and it was on our conversation that we had in my office when we were talking. That is, would you consider putting together a pilot at IRS? One, do you have a formal program of job sharing that there is a number and a name that someone can call?

And let us say they either want to stay home and spend more time with their child, or they have a father who is very ill with terminal cancer, or maybe they want to go back and get their Ph.D., or do something. Do you have a mechanism where if two or

Organized Crime Drug Enforcement

Agency Participation - FY 1988



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three people could call in and say, I have decided for the next six months or nine months, or a year I would like to go on a part time basis?

Mr. JOHNSON. We have, sir, a variety of kind of options. One that comes quickly to my mind is we have a good deal of flexibility in current part-time appointments where the employee can elect to work four to six hours, instead of an eight hour day, or three hours, or what have you, or two days a week, or three days a week. In fact, a graduate of that program is with us. Ms. Gayle Morin, our Assistant to the Commissioner for Legislative Liaison, did that for many years. We do have job sharing going on. We are monitoring it now to see what we can do to enhance that.

At the request of the administration, we are about to conduct some studies to go beyond our current efforts at what is called the "flexible workplace." We have had over the years some people who worked from their home or from a non-traditional work site. We are convening a task force on that. I think, as the Commissioner said, there is no one fix that is going to make the Federal Government a really good employer. It is going to take a wide variety of tricks in our bag, and we are open to all of those. Again, for the record, let me give you a summary of some of those kinds of activities.

Mr. WOLF. Maybe when you come by to talk about——

Mr. JOHNSON. Yes, sir. I would be happy to explore it further.

Mr. WOLF [continuing]. The move, we could do it.

Mr. JOHNSON. It is in the same part of the organization, too, Mr. Wolf.

IRS POLICY ON JOB TRANSFER

Mr. WOLF. The other thing is, what is the Service's policy on job transfers? I am sure you are, but are you sensitive with regard to let us say you have somebody out in Montana or out in Minnesota, and their daughter is active on the swim team and is a senior, are you sensitive before transferring them until she gets out of high school and different things like that? What is your policy? I am sure you are sensitive, but I would like to hear for the record what you are doing.

Mr. JOHNSON. Well generally speaking, sir, we have a general policy that where we can accommodate the special needs of an employee through a transfer, we will do so. We work to do that. You cannot always, because sometimes—an example I used with the Commissioner the other day, for example—I think the waiting list for the Phoenix, Albuquerque, and the Salt Lake City offices for special circumstance transfers is longer than my both arms combined. People have health problems that might be better served in those kinds of climates.

So generally speaking, we encourage when a new position is created, or a vacated position appears, we look through the voluntary application file. We educate our directors to be sensitive to exactly these kinds of needs and situations. That is our general policy. It does not always work because of the kind of limitations that I described. But it is generally——

Mr. WOLF. On the reverse side, if you wanted to transfer this great agent to Washington, would you be sensitive not to make the transfer if they had somebody in high school and wait six months or nine months? Do you do those things?

Mr. JOHNSON. In my experience, sir, we almost never—and I mean never—make an involuntary transfer over a long distance. For example, some years ago when we needed more special agents on the border for the drug war, we went on a volunteer program. We asked for people around the country who wants to be assigned to El Paso, or Brownsville, or something of that sort for a while. In my experience, I just cannot remember a situation where we up and said, "You are going to move 1,000 miles or 2,000 miles."

As a general rule, our policy would be that if that were ever necessary and you had worked with the employee in training and whatnot, we then would provide the financial assistance to relieve whatever situation occurs. But as I say, in my experience that is so rare. It just does not pop up.

Mr. MURPHY. Mr. Wolf, I chair our executive resources board, which controls about 300 executives nationwide. And the example you gave is something that would come before us, say on the move of an executive. There is a lot of movement in the Senior Executive Service, as you well know. And under those circumstances, we deal with both the personal problems of the individual, and the organization. And if we can handle it with money, that is one thing, but usually it is a little bit better understanding.

The other point I would like to make, traditionally we really do not move that many of our technical rank-and-file employees. It is usually in the managerial levels and above that we would do that.

PAY RAISE

Mr. WOLF. This is the last question I have, and I thank the Chairman for giving me this time. What has been the impact on the Service with the pay raise? Have you found that it has kept anybody from retiring who is ready to retire, or has it made a significant difference in morale? Could you for the record say what the impact has been?

Mr. GOLDBERG. I will let these folks speak on the subject.

Mr. MURPHY. I would love to put something in the record on that, because as you know I have been quite vocal with you, and with others, and with the Chairman on this subject, and with Tex. I think it has had a very positive impact. I know of people that are in our executive ranks that are thinking more than just twice about leaving government service. Now, of course they are "betting on the come." The January pay raise is the issue. And it has a very positive reaction. My only concern, Mr. Wolf, is that if something would go wrong on it, I would still raise again with you that the potential for exodus is there.

But even more important than that is the impact on younger people coming up the ranks into executive positions. I think it is a real plus there. So it is not just retaining. It is attracting people. Very, very positive is what I would say. And I could give you some numbers on it, if you would like. Just off the top of my head, I

could probably name 10 executives right now that have been thinking about retiring and probably will not.

Mr. WOLF. Thank you, Mr. Chairman.

LONG RANGE PLAN FOR AUTOMATION

Mr. ROYBAL. Mr. Goldberg, I think you told Mr. Wolf that IRS is the best tax collecting agency in the world. Is that correct?

Mr. GOLDBERG. That would be my guess. Yes, sir.

Mr. ROYBAL. I agree. I think it is the best. It is the largest and the best. But it reminds me of a time when it had been reported that—again going back to a situation, where Dr. Deming went before the board of directors of General Motors and said to them, "If you adopt my system of productivity, you will be the greatest automobile company in the world." The members of the board said, "Well, we already are." He said, "Well, yes, you are the greatest now. But there are countries that are developing that will catch up with you and pass you if you do not put into your operation a system of productivity that makes sense."

They did not buy it. And Deming went to Japan where they make Toyotas; and Datsuns; and computers; I think that you are the best right now. But I would not want to see years from now a situation where you do not continue to improve. And if we do not get this automation taken care of, I think that is going to happen.

So I am asking if you would be kind enough to provide the committee a separate report on that and the discussion that we have had to report on your long-range plan for automation showing, but not limited to, total cost, timetable of accomplishment, and the benefits that would be derived from that new system—benefits both to IRS and to the taxpayer.

Mr. GOLDBERG. With pleasure.

[The information follows:]

LONG-RANGE PLAN FOR AUTOMATION

Attached are three documents which outline the benefits of Tax Systems Modernization (TSM), the initiatives which comprise TSM, and the timeframes for major acquisitions. As referred to in the documents, corporate systems contain tax information that more than one IRS user/function might use, including, name, address, social security number (master file information). Alternately, departmental systems contain tax information required by a functional organization within the IRS, for example, Automated Underreporter (AUR). This information is not carried in the corporate data base.

IRS' modernization effort should span about ten years, with a target completion of 1998. The implementation is being conducted in a modular fashion which provides for incremental benefits to taxpayers throughout the ten years. Modular implementation also minimizes risks and ensures tax processing will continue uninterrupted.

Current estimates are that total costs of implementing the future system will be approxmately $5–6 billion. This figure does not include transition costs, nor is it the total for life cycle costs.

MODERNIZATION PROGRAM/PROJECTS/ACTIVITIES

Information Systems Development

PROGRAM INITIATIVE:

Mission Support (IS-01)

This initiative provides the basic activities in support of the modernization effort. This includes the Office of the Assistant Commissioner (Information Systems Development) and the Project Management Division.

Systems Integration (IS-04)

This initiative will provide the target architecture for the logical and physical design of the tax administration system, including the telecommunication and security architecture to support the redesign. This is a high level blueprint of the way IRS will conduct its business in the future.

Other support:

Input Processing Systems

PROGRAM INITIATIVES:

Integrated Input Processing System (IS-06)

This initiative will provide technical innovations to convert taxpayer information to electronic images for easy retrieval and manipulation. These innovations include optical character recognition, optical disk storage, electronic filing of information returns, and other technical enhancements to the pipeline tax return processing systems.

Electronic Filing System (EFS) (TR-06)

EFS provides the capability to automate the receiving, sorting, blocking, numbering, coding/editing, and transcribing of tax returns. Processing of returns can be done efficiently and quickly. Input errors will be significantly reduced (error rate for

paper returns in 21% vs. 3% for electronic returns). Storage on magnetic tape will improve retrieval of return data (i.e., compared to the six to eight weeks to secure paper returns from the Federal Records Center.

Corporate Systems

PROGRAM INITIATIVES:

Corporate Systems Modernization/Mirror Image Acquisition (IS-10)

This initiative will address capacity shortfalls at our Martinsburg and Detroit Computing Centers; it will allow implementation of Corporate Systems modernization projects; and, it will allow the Service to implement the Mirror Image concept, which includes disaster recovery capability and will provide two parallel processing systems, allowing the flexibility to shift work between Martinsburg and Detroit, as needed.

Corporate Files On-Line (CFOL) (IS-09)

CFOL is to improve the IRS tax administration system by making tax account data available to many users in an on-line environment and by redesigning impacted processes to take advantage of modern database technology and business practices.

Citator (IS-07)

This initiative will provide a Servicewide, corporate reference database for easy electronic access and search capabilities.

Document Image Database (DIDB) (part of IS-06)

Optical Character Recognition devices (OCR), data conversion and image lift capabilities to develop an image-based tax processing system. It promises to reduce escalating costs and exercise better control over storage and retrieval of tax returns. Document Image Data Base (DIDB), one of the five Corporate Data Bases discussed in the Information Systems Management plan. It will support all IRS functions associated with returns processing and post pipeline functions as well as requests from taxpayers.

SERVICE CENTER

PROGRAM INITIATIVE

Service Center Support System (SCSS) (IS-08)

Service Center Support System (SCSS) is scheduled to replace completely the current UNISYS system. The goal is to ensure the timely processing of tax returns with adequate capacity for future enhancements.

Service Center Departmental Applications (IS-02)

This will provide early modernization benefits by automating manual processes using data base systems, file servers for distributing data and controlling work stations, and personal computers to manage the case work, the automation of the Underreporter Program (AUR) is included in this initiative.

DISTRICT OFFICE

PROGRAM INITIATIVE

Automated Examination System (AES) (EX-16)

AES streamlines and automates the examination function. Tax Auditors, Tax Examiners, Revenue Agents, EP/EO Agents, and Appeal Officers will use AES to record case work and process tax data in a timely and efficient manner. Reports and workpapers will be automated to prompt IRS personnel for appropriate entries and generate readable and accurate reports, letters/notices, and tax account data for posting to the Master Files.

Integrated Collection System (ICS) (CO-05)

ICS will establish a Collection data base and an access network of mini and microcomputers. This will integrate Collection information into one "electronic" case file, giving ready access to records of previous contacts and minimizing requests for data already provided. ICS will coordinate contacts with taxpayers (business, joint returns, partnerships) in more than one location.

Automated Criminal Investigation (ACI) (CI-01)

ACI will provide an office automation system for work processing, case analysis work, management information, and nationwide communication. Analysis of large volumes of source documents will be more efficient and less time consuming. Criminal Investigation will use better analytical tools to work increasingly complex tax evasion schemes.

Automated Taxpayer Service System (ATSS) (TR-34)

ATSS will provide tax assistors immediate access to a tax reference data base that contains consistent, timely, and accurate tax-related law and procedures, tax account data, and enough information to resolve many taxpayer inquiries without callbacks or referrals.

Counsel Automated System Environment (CASE) (CC-05)

CASE is a comprehensive program to provide information system requirements throughout the Office of Chief Counsel. CASE will restructure and expand the present Counsel Automated Tracking Systems (CATS), as well as provide integrated office automation systems, expanded research capability, and enhanced management tools. CASE will increase professional and support staff productivity by improving office and administrative systems efficiency.

ACTIVITIES:

DMAC (CS-14)

TMAC (CS-14)

These activities establish and monitor the funding for mini/micro computers. Separate projects include Minicomputer Maintenance Recompetition (MMR), Field Office Automation, Treasury Multiuser Acquisition Contract (TMAC), and Departmental Microcomputer Acquisition Contract (DMAC). Funding these projects provides an efficient method to improve office systems and provide for automation tools.

Tax System Modernization

The Tax System Modernization (TSM) program is a comprehensive effort to modernize the Service's information systems, so that the IRS can provide the highest level of service to the public. The modernization program will enable the Service to meet the needs of all it's customers, both the taxpayers and internal IRS users, by implementing the latest technology that permits timely and accurate delivery of all tax information. For example, the taxpayer will call in with an inquiry, the IRS official will identify the worker that will or is processing the return, route this information to the worker, who will then get back to the taxpayer for resolution. This will eliminate multiple calls from the taxpayer to resolve the inquiry. Additional benefits from the TSM architecure are fewer bad notices sent out to taxpayers, fewer number of inquiries, a more rapid return of tax refunds, and elimination of inconsistent responses to the taxpayer. This will significantly reduce the burden on taxpayers to resolve apparent discrepancies, inquire about the status of accounts, or question untimely notices.

The capabilities of the TSM architecture to improve both customer service and compliance related activities may translate into increased willingness by taxpayers to voluntarily comply with tax laws and regulations. This would increase the amount of tax revenue paid and collected voluntarily.

The TSM Program will greatly reduce the major problems inherent with today's operating tax processing environment. The program is designed to reduce these problems, as well as producing benefits that include:

- Storage of tax returns, correspondence, and remittances in an image-based archival and retrieval system.
- Automatic conversion of tax return data to computer-processable format, captured from an electronic image.
- Reduction of paper in the tax processing operation.
- Integrated computer environment and data bases.
- Immediate, on-line access to current and active case tax data.
- On-line updates to taxpayer accounts.
- IRS-wide tracking and control capabilities.

- Automatic case identification, assembly, and routing by using electronic case files.

- Streamlined program management using a fully integrated management reporting system, as compared to the fragmented reporting of today.

- Increased use of electronic receipt of tax returns and remittances.

- One-stop customer service to the taxpaying public.

The following narrative is a high-level, conceptual view of how the Service will conduct business in the TSM environment. This narrative will discuss this operating environment in four areas: 1) the receipt of tax data, correspondence, and remittances, 2) the processing of the tax data, 3) the storage of tax data, and, 4) the use of the tax data for servicing taxpayer accounts and for ensuring taxpayer compliance with the tax laws.

I) Receipt of Tax Returns, Correspondence, and Remittances

The operating environment will be significantly different than today's, in that there will be minimal movement of paper. The TSM environment will essentially be paperless, once the tax return or other documents are received and processed by the system. This process encompasses the receipt of tax returns (remit and non-remit) and correspondence at the service centers. The documents will pass through a "prep" area, where there will be a mix of an automated and manual process that prepares the documents for the imaging activity (unfolding, unstapling, etc.). It is anticipated that there will be a small percentage of documents that will be deemed "unimageable," and will have to have the tax data keyed manually into the system. As the documents are being imaged, a unique identifier will be logically assigned to each image, specific data will be analyzed to identify returns for possible examination activities, and correspondence will be identified for automated routing to appropriate offices. Returns or remittances will have the remit imaged and sent to a cash management area for processing, while the remit transaction is automatically routed for posting to the appropriate account. The modernization effort will also enhance the use of individual and corporate electronic filing and will reduce the burden on the taxpayer by having more efficient forms that will be prepared and filed.

II) Processing Tax Data

Once a quality electronic image is produced at the service center, entity and numeric data are automatically captured from the image and converted to a computer processable format. This captured data is then used to process the returns, and subsequent to passing all edit checks, will be sent to the corporate environment for account updates. A major change from today's operation will be the "upfront" math and validation checks of tax data prior to transmittal to the taxpayer data stores. In other words, instead of transmitting data to the taxpayer data stores, having additional checks performed, then send the data back to the service center for delayed taxpayer contact and correction; the TSM architecture will allow all the necessary checks to be performed, errors identified, and corrections made so that "clean" data is sent to the corporate data stores (one time) for posting to accounts.

District offices and large posts of duty (PODs) will image remittances and correspondence, and forward any paper tax returns to the service center for processing. Small PODs will image correspondence received at that site, forward tax returns to service centers for processing, and enter remittance transactions into a system workstation before forwarding the remittances to a district office for processing.

Service centers will have immediate access to images of tax returns and remittances during the processing of tax returns and related documents, as well as to corporate data to resolve errors. All IRS sites will have immediate access to images of tax returns and remittances associated with an active case, and overnight access will be provided for inactive cases.

III) Storage of Imaged Tax Data

Images will be stored for archival/retrieval. This data store will be located at each service center, with an index of all imaged documents in the center. There will be a "master" index (located centrally or distributed) that can be accessed to locate any tax return in the image archival system. Images will be requested and transmitted via the local (within the service center) communication network. There will also be the capability to transmit images over the IRS-wide communication network to all sites, upon request. However, with the capture of most of the data (if not 100%) in computer-processable formate, it will be more prudent to transmit the data in most cases. This image-based storage system will enable the IRS to reduce the problem of lost tax returns and reduce the use of the Federal Records Center (FRC), which will translate into major savings.

IV) Use of Tax Data

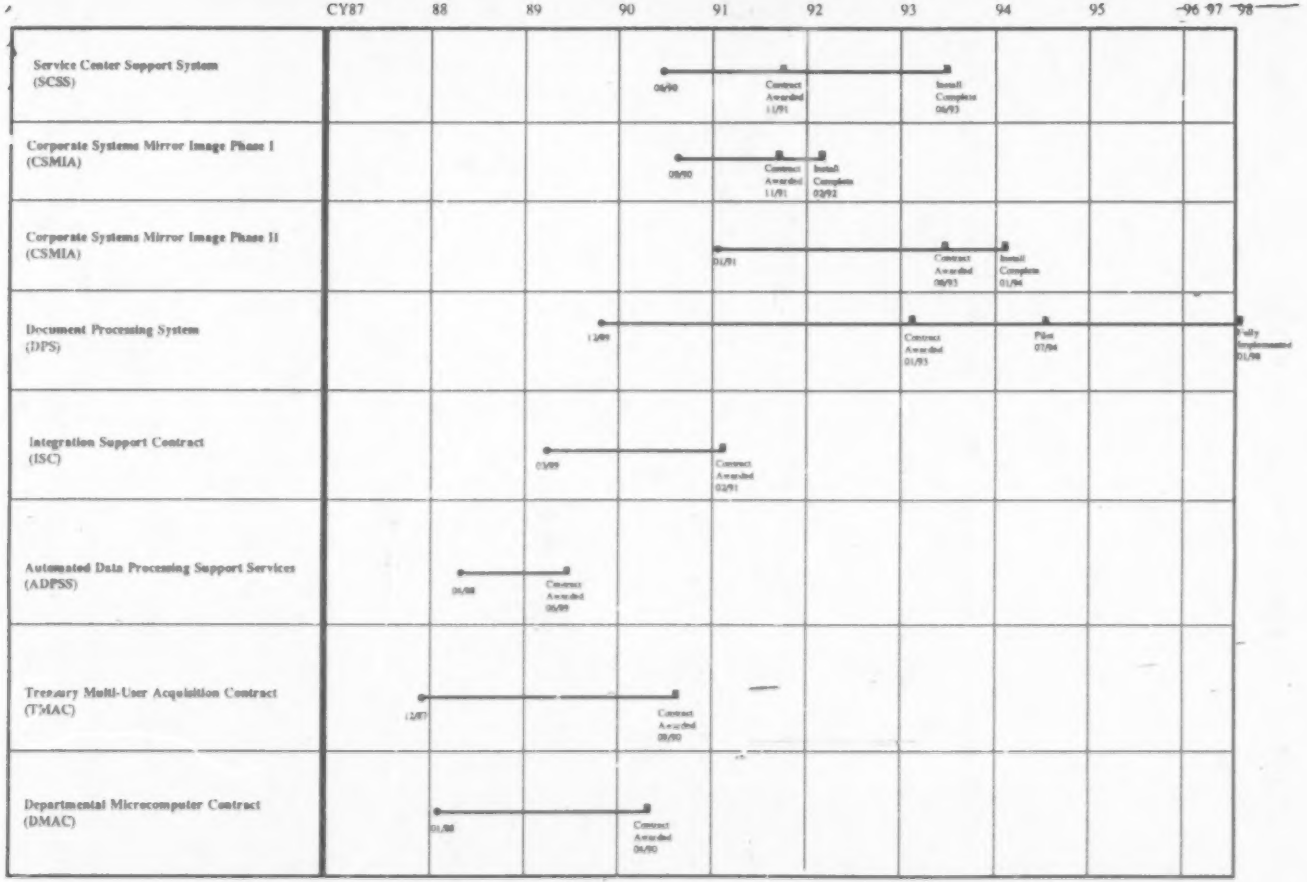
Two of the primary benefits of the architecture will be the increased data available and the speed that data is available to the front line IRS employees who deal daily with tens of thousands of taxpayers.

Cases resulting from either taxpayer correspondence, verbal inquiries, or from discrepancies in information on file will be automatically routed to the examiner, via a case control activity, in an electronic form to a case worker's workstation, rather than in a paper case file. The case will consist of an image of the return/information documents, all pertinent data about the account and any other data (such as an image of a letter from the taxpayer). The case worker will still have the capability to request additional data, as well as receive related data after the case has been sent to the workstation. All cases will be automatically routed and scheduled to the appropriate area for resolution and for presentation to the first available examiner, based on criteria such as the skill level of the employee, inventory, and other criteria established by management. The electronic case will allow multiple use of the case file to all appropriate workers, where today only one case worker has access to the case file at one time.

In addition to improved access to taxpayers accounts by authorized IRS personnel, the Service is currently analyzing potential costs and benefits of providing taxpayers and/or their authorized representatives access to specified tax data in their own accounts. Account information that might prove to be useful to the taxpayer includes: account status (e.g., balance due or refund information, confirmation of primary entity information (address, SSN, dependent data), and correspondence/notice information. Potential access to IRS "Expert" systems in areas such as taxpayer service is being explored. Accuracy and uniformity of taxpayer treatment will improve. The image of the Service will be enhanced through better taxpayer service and increased taxpayer confidence in the quality of our responses.

- Taxpayers will be able to inquire into the status of their account and receive the latest information without having to wait for the examiner to secure a copy of their return or account information.

MILESTONE CHART



* Acquisition process begins

- Readily available reference materials and intelligent or expert systems used to help the examiner will improve the quality of the advice taxpayers request. For example, the voluminous IRM books will be on-line and searchable by subject, word, or index.

- Examiners will have automated tools to support and enhance their analytical capabilities.

- Compliance personnel will be able to research unusual legal interpretations and apply them uniformly to taxpayer situations.

- Examinations will occur promptly which will reduce the penalty and interest due when additional tax is assessed.

- Collection procedures will be properly executed relieving the taxpayer of the concern of improper lien/levy activities.

Numerous initiatives are being planned to accommodate the TSM architecture, as well as acquisition strategies, telecommunication, and human resource allocation plans. All of these efforts are being coordinated in relation to the established TSM architecture. This will ensure a more efficient transitioning of the operations of today to the future of IRS' service to all its customers.

Mr. ROYBAL. Because I think that more or less would tell us what is in mind.

Mr. GOLDBERG. If I could just comment for one second on that. Deming is one of the experts around in the area of quality. Dr. Juran is another who I think is of equal prominence. And we have been working with Dr. Juran now for a number of years. As you know, Commissioner Gibbs and Commissioner Egger were instrumental in that effort. And we are pursuing that with as much vigor as we can, because I think you are right. I think we are already seeing certain state income tax systems now that are probably ahead of where we are. And I think we have to make those kinds of investments. And I will be happy to provide you with the information.

MONEY SPENT ON THE DISABLED

Mr. ROYBAL. We want to be the best. We want the best equipment that is available because it will increase efficiency and in the long term reduce costs. Let us get it, and let us get it done. Now the next thing is, Mr. Goldberg, I would like to know what is being done with taxpayer services. Being more specific, how are the disabled being serviced? How much money is being spent for that and so forth? Who can tell me that?

Mr. BRENNAN. No. I do not have an exact figure, sir.

Mr. GOLDBERG. That is an area, I think, of great importance to us. And as you know, we do a great deal of employment of the disabled. In terms of assisting disabled taxpayers, we will get you that information for the record. But there was an inquiry that just recently came in involving assistance for the hearing impaired and visually impaired. And we are right now embarking on a toll-free number that will get those folks into a central site by telephone to do a better job of providing them with the kind of assistance that they need. And that is an important program to us, and we will provide you with that information.

Mr. ROYBAL. All right.

[The information follows:]

IRS SPENDING FOR THE DISABLED

There are two programs within the Service that are specifically designed to assist the disabled taxpayer. IRS provides nationwide toll-free telephone service for the hearing impaired at the Indianapolis Toll-free Telephone Site at an average cost of $30,000 per year. In a cooperative effort with the National Library Service for the Blind, we produce Form 1040 and Instructions, Form 1040A/EZ and Instructions, the Tax Tables, Publication 17, and Publication 334 in hard copy braille for the participating libraries. Our annual cost for this program is approximately $77,500.

Additionally, IRS provides "TAX HELP" video tapes (with closed caption) and audio tapes to libraries participating in our Library program. Although these tapes were produced for the general public, the hearing and visually disabled do benefit from this program.

The Service also spends $2.5 million to produce and ship braille materials to our visually impaired employees (includes contracts for forms, publications, and reference and training materials, as well as the Braille Support Centers located in Boston and Los Angeles and The Braille Distribution Center located in Phoenix). IRS provides nationwide toll-free telephone service for the hearing impaired at the Indianapolis Toll-free Telephone Site at an average cost of $30,000 per year. Also some $1 million was spent to upgrade the equipment used by visually impaired employees.

Mr. JOHNSON. If I may, sir, I would like to add that, as I think the Chairman knows, we do give an annual grant of $3 million to the tax counseling for the elderly, which we have been working with. Secondly, we do have in a number of our sites—I think all of the principal answering sites—the TTY equipment, which permits the hearing impaired to call in and talk to us using the screen approach, if they have a keyboard in their home.

We also have within our sites for our own employees—in fact, the Service I think has twice been recognized as a model handicapped employer by the Electronic Industries Foundation and so on. We have the equipment that permits our blind TSRs and TSSs to perform their duties as adequately as well as any other employee. And through them, normally we have a strong outreach program through special VITA sites for sightless and so on in the community, so I think——

Mr. ROYBAL. If all of this is being done, and I do not doubt that it is, there must be an estimate——

Mr. GOLDBERG. We will pull one together.

Mr. ROYBAL [continuing]. As to what cost is.

Mr. GOLDBERG. Yes, sir.

Mr. ROYBAL. And I would like to have that for the record.

Mr. JOHNSON. Okay.

Mr. ROYBAL. We know then that there is an addition of $3 million for the elderly.

Mr. JOHNSON. Yes, sir.

Mr. ROYBAL. What additional service will be provided with that $3 million?

Mr. JOHNSON. That is the tax counseling of the elderly program, sir.

PHILADELPHIA SERVICE CENTER

Mr. ROYBAL. All right. Now with regard to the situation in the Philadelphia Service Center, we continue to hear complaints, particularly about the long time it takes to get refunds. On the other hand, Virginia taxpayers switched from filing in Memphis to filing in Philadelphia. If you were indeed having problems with Philadelphia, why the shift?

Mr. BRENNAN. We did have problems, sir, in Philadelphia in 1985. Those problems were corrected by 1987. In 1988, we looked at all our centers around the country. In some places, as you know, the population is increasing much faster than other areas. So what we did in Philadelphia and one or two other centers, is shift states to try to equalize the workload. And as you point out, in January of 1989, we shifted Virginia into the Philadelphia Service Center. And they have operated in 1988 and 1989 and now. I have looked at their processing cycles, as we call it, for issuing refunds, and Philadelphia is doing a very commendable job this year in issuing refunds.

Mr. ROYBAL. Were there any savings as a result of that change?

Mr. BRENNAN. No immediate savings. It had to be done in terms of computer capacity. At one center, again when the population grows, the center gets overloaded with work. And so you just have to shift it somewhere else, otherwise you will have additional costs.

We avoided additional costs by shifting it from one place to the other.

Mr. ROYBAL. So it was done mostly because of the automation situation, which is better in Philadelphia than it is in Memphis?

Mr. BRENNAN. Well, it had more to do with the growth. We have 10 centers. And we kind of situated them so their size would be relatively equal. But that goes back about 20 years, I guess the last time we built a center. Over the 20 years, the population—again, the western area of our country and the southeast area of our country has grown. So the work that feeds into those centers, Austin and Fresno, for instance, just grew too fast. The northeast, take our Philadelphia Service Center, our Brookhaven Service Center, and Andover—the northeast has not grown that much, so what we try to do is equalize the workload around the country.

Mr. MURPHY. Mr. Chairman, I was Regional Commissioner in Philadelphia before I came in almost three years ago and was very much involved in that and Charly is right. He is saying that there were problems before, but I can assure you the test of whether we would move Virginia taxpayers to filing in Phildelphia Service Center was very much based on putting together some back-to-back successful filing seasons that could cause the Commissioner and anyone else to support it. The other one that I would like to show you—there was a very strict action plan shared with the public, with the tax practitioners in doing it.

If you are getting complaints, and I think that is the key—going back to some of your opening remarks—if there are some specific complaints about refunds are coming too slow, and as Charly indicated, our experience on high volume is that that is not the case. But we would certainly take whatever complaints you have got and try to deal with those.

Mr. ROYBAL. Sometimes we get complaints that the returns are too slow. If I filed today, it would be too slow if I do not get that return by tomorrow.

Mr. BRENNAN. If you file electronically, you will not get it by tomorrow, but——

Mr. ROYBAL. So it all depends on the time frame, and we do not know just exactly what this does in fact involve.

Mr. BRENNAN. I would be glad, sir, to furnish for the record, figures here which we use to keep track of how the centers are doing.

[The information follows:]

(Y@m)
(Alt-G for graph)

INDIVIDUAL INCOME TAX RETURNS
RECEIVED AND PROCESSED

AMENDED

(Y@m)

Returns Received and Processed in Service Centers through
March 3, 1989 and March 2, 1990. (In Thousands)

1. Weekly		1989	1990	Percent Change	1989 Receipts / 1990 Receipts / 1989 Processed / 1990 Processed
a) Receipts:	1040	4,151	4,196	1.1	
	1040A	1,184	1,180	-0.3	
	1040EZ	1,431	1,268	-11.4	
	Total	6,766	6,644	-1.8	
b) Processed:	1040	3,080	3,305	7.3	
	1040A	1,775	1,760	-0.8	
	1040EZ	2,061	2,156	4.6	
	Total	6,916	7,221	4.4	

2. Cumulative From January		1989	1990	Percent Change		
a) Receipts:	1040	17,255	18,821	9.1	17255000	18821000
	1040A	9,717	9,371	-3.6	9717000	9371000
	1040EZ	10,540	10,442	-0.9	10540000	10442000
					0	0
	Total	37,512	38,634	3.0	37512000	38634000
					0	0
b) Processed:	1040	9,878	11,306	14.5	9878000	11306000
	1040A	5,899	6,309	7.0	5899000	6309000
	1040EZ	7,080	7,688	8.6	7080000	7688000
	Total	22,857	25,303	10.7		

(Hit ALT-E for EFS Report)

Note: Data includes Electronic Returns.

(PSRO

Table extends to Column N !!

INDIVIDUAL INCOME TAX RETURNS RECEIVED AND PROCESSED
March 2, 1990
(000)

	ANSC	ATSC	AUSC	BSC	CSC	FSC	KCSC	NSC	OSC	PSC	U.S.
PERIOD RECEIPTS											
Actual 1990	484	498	540	482	944	626	860	532	831	717	6644
Actual 1989	836	561	472	474	930	538	915	587	713	740	6766
Change	-352	-47	68	8	14	88	-55	-55	118	-23	-122
Schedule	661	544	359	510	944	531	911	574	758	700	6736
Change	-177	-42	-19	-28	0	95	-51	-44	73	17	-92
Actual 88	853	669	674	442	779	581	701	622	713	523	6553

CUMULATIVE RECEIPTS

Actual 1990	3497	3485	3424	2087	6581	2981	4169	3834	4471	3905	38634
Actual 1989	3448	3589	3516	2231	5884	2906	4289	4114	3748	3887	37512
Change	249	-104	-92	-144	697	175	-120	-280	723	18	1122
Schedule	3480	3615	3569	2271	6030	2794	4258	4011	4187	3925	38150
Change	217	-130	-145	-184	551	187	-89	-177	284	-30	484
Actual 88	3847	4539	4046	2173	4601	2740	3804	4318	3459	2946	36473
PERIOD PROCESSED											
Actual 1990	691	636	647	466	1072	634	750	742	769	794	7221
Actual 1989	709	690	746	432	1031	492	699	751	705	661	6916
Change	-18	-54	-99	34	41	142	51	11	64	133	305
Schedule	623	523	618	441	1058	598	630	700	690	672	6553
Change	68	113	29	25	14	36	120	42	79	122	668
Actual 88	628	732	724	396	854	637	776	808	731	343	6829
CUMULATIVE PROCESSED											
Actual 1990	2576	1871	2170	1293	5648	2985	2364	2465	3200	2291	25383
Actual 1989	2049	2135	2349	1119	4980	1529	2180	2397	2278	1941	22057
Change	527	-264	-179	174	988	476	184	68	922	350	3246
INVENTORY											
1990	1121	1414	1254	794	1513	976	1805	1369	1271	1614	13331
1989	1399	1454	1167	1112	1804	1277	2109	1717	1470	1946	15455

CPSDMO (ALT S - FOR MENU)

(PgDn) The Service Center Processing Cycle Days 31
March 3, 1989 and March 2, 1990

(No graph here)

	1989				1990			
	1040	1040	EZ OCR	EZ DIS	1040	1040	EZ OCR	EZ DIS
ANEC	8	10	10	9	10	10	6	10
ATSC	10	14	15	8	11	15	15	11
AUSC	9	12	9	10	10	12	9	10
BSC	9	15	11	8	9	10	7	7
CSC	9	11	9	9	8	9	4	8
FSC	11	11	n/a	12	7	8	n/a	10

CPSDMO (ALT S - FOR MENU)

KCSC	10	12	13	11	11	9	10	11
MSC	12	15	11	10	10	14	14	8
OSC	10	14	14	9	9	13	12	11
PSC	12	15	10	14	12	12	9	12
UE	10	13	11	10	10	11	10	10

CPGDO (ALT S - FOR MEMO)

ADJUSTMENTS (INF/BMF) 1989 vs 1990 3-2-90

CPGDO

	3/3/89 Inventory	Current Inventory	3/3/89 Cum Rec's	Current Cum Rec's	% Change Invent.	% Change Rec's
ANSC	37,688	36,930	148,475	153,358	-2.0%	3.3%
ATSC	30,107	39,356	167,790	160,195	30.7%	-4.5%
AUSC	32,807	42,883	147,966	153,921	30.7%	4.0%
BSC	32,275	29,819	146,628	158,230	-7.6%	7.9%
CSC	34,829	41,021	183,862	171,565	17.8%	-6.7%
FSC	48,332	37,964	187,871	169,331	-21.5%	-9.9%
KCSC	39,077	31,481	133,846	142,575	-19.4%	6.7%
MSC	34,626	34,523	112,108	110,448	-0.3%	-1.5%
DSC	39,239	51,220	163,856	191,074	30.5%	16.8%
PSC	40,907	48,300	167,511	192,328	18.1%	14.8%
TOTAL	369,887	393,497	1,559,473	1,603,025	6.4%	2.8%

CPGDO (ALT-G for graph) (ALT S - FOR MEMO)

ADJUSTMENT INVENTORY LEVELS (INF/BMF) 3-2-90

CPGDO

	UnContrl'd Inventory	Contrl'd Inventory	Total Inventory	Overage	Overage Percent	Weekly Rec's	
ANSC	6,517	30,413	36,930	1,713	4.6%	20,154	28700
ATSC	5,696	33,660	39,356	5,157	13.1%	21,122	28503
AUSC	13,222	29,661	42,883	2,445	5.7%	21,562	27216
BSC	4,770	25,049	29,819	2,213	7.4%	17,125	22836
CSC	10,863	30,158	41,021	1,261	3.1%	22,637	29897
FSC	9,965	27,999	37,964	1,384	3.6%	20,027	26615
KCSC	4,069	27,412	31,481	5,290	16.8%	22,148	22132
MSC	10,523	24,000	34,523	3,971	11.5%	15,473	20029
DSC	16,648	40,572	51,220	5,035	9.8%	25,522	35537
PSC	13,164	35,136	48,300	3,683	7.6%	30,173	31453
TOTAL	89,437	304,060	393,497	32,142	8.2%	224,143	

Monthly Trend Analysis
Adjustment Inventory - (INF and BMF)
Date: 2-23-90

Monthly Trend Analysis
Adjustment Inventory - (INF and BMF)
Date: 2-23-90

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Rndcver 1989	39,123	40,160	37,754	35,139	54,061	58,500	42,580	47,857	58,391	49,408	50,429	41,255

1989	33,443	35,611	51,029	48,334	56,422	52,298	52,872	45,636	38,552	35,341	29,825	33,564
1990	30,012	34,027										
Atlanta												
1988	32,280	40,983	47,134	47,547	52,149	46,976	48,051	56,195	50,770	46,660	41,243	38,826
1989	33,928	29,499	46,915	37,834	50,469	54,533	58,340	37,387	36,177	31,372	32,090	40,445
1990	37,975	39,370										
Austin												
1988	42,763	41,512	51,875	50,033	57,071	47,867	41,153	38,154	37,677	32,294	27,632	30,404
1989	31,048	32,099	41,316	51,946	60,724	59,778	53,063	46,699	40,434	35,082	38,672	41,649
1990	33,237	41,364										
Brookhaven												
1988	37,952	35,309	38,319	33,375	41,887	49,413	47,271	39,090	33,372	36,827	32,477	34,314
1989	34,879	32,514	39,911	37,923	48,491	48,163	52,591	44,372	43,510	35,614	29,995	33,394
1990	36,930	32,096										
Cincinnati												
1988	21,460	25,885	35,970	36,923	45,989	45,417	44,416	29,439	26,849	23,461	25,743	19,546
1989	21,614	35,049	48,503	59,637	71,508	66,412	57,111	48,219	42,532	35,127	27,939	19,793
1990	24,663	42,254										
Fresno												
1988	44,933	49,097	54,607	58,256	78,819	78,405	69,033	61,324	64,035	62,206	50,534	43,458
1989	37,084	46,165	53,451	55,467	76,362	96,099	70,357	61,454	56,140	43,477	45,209	31,940
1990	32,044	29,064										
Kansas City												
1988	29,802	33,194	36,174	41,652	47,470	73,064	63,907	48,723	35,003	27,324	30,299	27,242
1989	33,779	35,907	49,480	45,658	64,263	128,946	117,678	96,581	51,926	35,782	44,201	36,905
1990	31,564	24,875										
Memphis												
1988	24,048	26,542	40,076	36,546	47,549	55,491	62,720	49,182	41,967	40,310	32,229	26,228
1989	25,835	27,399	50,604	46,167	71,830	74,320	71,679	61,359	48,951	38,257	23,904	30,944
1990	30,765	32,837										
Ogden												
1988	29,708	31,184	52,193	54,729	69,858	76,648	80,509	71,508	57,835	54,488	39,172	40,925
1989	34,766	35,784	56,410	58,011	80,731	66,586	68,010	55,974	51,348	42,294	43,966	43,161
1990	36,723	47,207										
Philadelphia												
1988	40,750	37,671	37,368	31,986	35,778	30,058	37,405	41,243	41,667	30,082	40,104	38,439
1989	34,994	38,293	45,486	41,566	81,629	93,004	93,898	79,334	57,791	47,688	40,899	39,335
1990	49,684	40,506										
National												
1988	342,824	349,537	432,470	426,186	530,551	581,639	585,125	482,715	441,566	423,260	369,962	341,167
1989	323,370	348,340	482,785	542,545	662,229	748,139	675,619	577,615	461,361	400,024	375,800	351,352
1990	343,597	345,620										

UNPOSTABLES (8) 1989 vs 1990 3-2-90

ALT $ - FOR MEMO

	3/3/89	Current	3/3/89	Current	% Change	% Change

CPSDMO	Inventory	Inventory	Cum Rec's	Cum Rec's	Invent.	Rec's
ANSC	39,536	28,489	149,874	77,839	-27.9%	-48.1%
ATSC	47,800	34,954	126,616	125,341	-22.7%	-0.8%
AUSC	50,183	38,234	111,944	81,233	-23.8%	-27.4%
BSC	38,506	29,697	106,634	81,672	-24.4%	-23.4%
CSC	13,844	23,081	102,693	101,679	66.7%	-1.0%
FSC	32,458	37,149	144,893	143,830	-29.5%	-0.7%
HCSC	31,626	29,616	96,954	82,194	-6.4%	-15.2%
HSC	34,263	38,138	144,148	76,929	11.4%	-46.6%
OSC	28,729	30,146	107,429	124,265	4.2%	15.7%
PSC	50,100	40,544	107,122	99,425	-19.0%	-7.2%
TOTAL	287,445	331,492	1,198,387	994,607	-14.4%	-17.0%

(Inventories are all MFs; Receipts are INF/BMF)

UNPOSTABLE INVENTORY LEVELS (All MFs) 3-2-90

CPSDMO

	UNPOSTABLE INVENTORY					WORKABLE INVENTORY
S.C	UNP FUN	OTHER FUN.	TOTAL	OVERAGE	PERCENT	UNP FUN
ANSC	23,258	5,231	28,489	2,213	7.8%	12,309
ATSC	31,336	3,618	34,954	3,117	8.9%	14,410
AUSC	33,446	4,588	38,234	2,437	6.4%	12,448
BSC	28,473	624	29,097	1,256	4.3%	8,719
CSC	14,639	8,442	23,081	1,159	5.0%	2,136
FSC	31,997	5,152	37,149	1,222	3.3%	19,193
HCSC	23,542	6,074	29,616	2,700	9.1%	7,952
HSC	32,262	5,896	38,158	5,172	13.6%	17,669
OSC	24,088	6,058	30,146	646	2.1%	11,667
PSC	33,972	6,594	40,566	5,923	14.6%	15,258
TOTAL	279,213	52,279	331,492	25,845	7.8%	122,081

Monthly Trend Analysis 3-2-90
Unpostable Inventory - (INF & BMF)
Date: 2-23-90

Monthly Trend Analysis
Unpostable Inventory - (INF & BMF)
Date: 2-23-90

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Andover												
1988	37,348	41,200	57,965	90,342	131,241	111,761	75,947	70,802	44,348	53,310	48,754	18,075
19	41,004	48,949	47,140	44,499	82,377	63,661	45,347	39,451	29,164	21,878	21,351	28,398
1990	22,115	26,178										
Atlanta												
1988	38,907	42,111	49,518	70,147	119,060	88,823	65,281	45,310	47,275	45,178	42,242	29,814
1989	34,184	42,091	31,325	50,867	104,477	74,975	49,898	32,425	32,969	27,683	22,220	38,580
1990	37,776	34,858										
Austin												
1988	49,148	44,097	60,563	56,638	113,732	84,364	54,476	45,872	42,652	39,952	35,892	23,085
1989	33,479	40,745	60,038	54,581	91,560	64,187	43,444	48,984	37,960	32,031	23,952	37,751
1990	38,466	37,968										

Brookhaven												
1988	38,694	38,686	42,370	45,961	123,451	116,653	91,753	66,725	48,217	39,223	38,884	29,706
1989	41,382	43,827	30,154	27,749	124,857	85,562	74,625	57,686	44,776	33,044	26,712	27,695
1990	25,694	29,991										
Cincinnati												
1988	20,686	14,862	19,992	29,830	49,041	53,354	39,177	29,912	23,538	23,994	19,946	13,688
1989	25,968	28,264	33,272	35,730	67,839	72,524	80,377	37,475	23,266	18,318	15,831	23,393
1990	21,932	22,953										
Fresno												
1988	47,914	54,361	76,925	97,081	152,260	139,774	98,623	79,300	62,285	53,952	37,126	26,415
1989	33,648	46,981	56,204	42,790	92,843	56,523	37,636	23,098	24,177	19,251	16,708	27,402
1990	25,522	31,997										
Kansas City												
1988	49,780	37,682	33,741	43,090	75,109	66,467	50,019	40,899	37,288	36,086	29,878	18,689
1989	22,349	33,[illegible]	33,[illegible]	46,[illegible]	72,[illegible]	72,654	81,370	42,152	41,331	32,657	26,123	39,953
1990	29,647	36,371										
Memphis												
1988	51,454	34,491	49,725	57,657	101,421	88,197	85,293	54,519	36,563	34,724	24,430	18,137
1989	26,792	44,015	42,093	39,843	76,356	58,301	56,965	50,273	40,351	37,327	28,320	33,922
1990	33,122	38,158										
Ogden												
1988	27,767	29,052	39,528	39,864	69,306	63,041	55,603	41,977	26,614	23,971	23,374	17,241
1989	23,367	31,115	29,335	32,364	56,663	51,194	56,743	25,137	23,688	17,497	14,898	23,367
1990	20,100	29,103										
Philadelphia												
1988	51,432	52,933	47,284	50,813	87,573	95,113	103,925	70,239	46,847	42,912	34,002	26,679
1989	37,585	50,612	40,443	75,360	112,274	120,314	109,678	76,403	45,769	34,032	33,796	37,775
1990	39,806	39,744										
National												
1988	413,152	384,480	480,651	591,443	1,022,194	907,547	720,097	564,745	437,622	392,402	333,522	221,600
1989	331,758	410,271	404,001	525,441	894,788	719,895	676,983	456,284	343,651	273,548	230,031	318,436
1990	292,380	323,313										

ENTITY (INF/BHF/EPHF) 1989 vs 1990 3-2-90

	1/1/89 Inventory	Current Inventory	1/1/89 Cum Rec's	Current Cum Rec's	% Change Invent.	% Change Rec's
AHSC	20,485	14,891	157,296	100,597	-27.3%	-36.0%
ATSC	16,191	13,562	160,747	146,080	-16.2%	-9.1%
AUSC	22,200	8,800	143,382	119,695	-62.1%	-16.5%
BSC	27,259	5,378	135,326	103,297	-80.3%	-23.7%
CSC	17,130	7,787	166,421	132,319	-54.5%	-20.5%
FSC	28,268	24,408	196,168	181,350	-13.7%	-7.6%
KCSC	33,904	17,642	157,912	144,908	-48.0%	-8.2%
MSC	29,089	13,903	228,999	103,662	-52.2%	-54.7%
OSC	15,818	16,343	145,175	156,259	3.3%	7.6%
PSC	37,931	19,004	148,839	135,124	-50.0%	-9.1%

TOTAL	249,325	141,718	1,660,242	1,343,291	-43.2%	-19.1%

(PGSMO) (ALT-G for graph) (ALT S - FOR MENU)
ERS (INF/BNF) 1989 vs 1990 3-2-90

	3/1/89 Inventory	Current Inventory	3/1/89 Cum Rec's	Current INF Cum Rec's	% Change Invent.	% Change Rec's
AHSC	9,840	4,766	339,343	287,634	-51.6%	-15.2%
ATSC	32,100	29,884	380,583	283,408	-6.9%	-25.5%
AUSC	23,102	65,132	338,329	274,196	95.4%	-19.0%
BHC	2,981	1,150	167,001	170,021	-44.7%	1.8%
CSC	320	5,022	408,327	442,126	1469.4%	5.6%
FSC	92	2,056	274,462	335,178	2134.8%	22.1%
KCSC	9,785	16,507	280,536	289,977	68.7%	3.4%
MSC	53,756	23,868	382,116	366,166	-55.6%	-4.2%
OSC	204	25	277,711	340,512	-87.9%	22.6%
PSC	19,923	2	299,002	316,699	-100.0%	5.9%
TOTAL	151,205	128,414	3,347,430	3,305,937	-15.1%	-1.2%

(Receipts are INF only) (PGSMO) (ALT S - FOR MENU)

Monthly Trend Analysis
ERS Inventory - (INF)
Date: 2-23-90

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Andover												
1988	194	46,643	37,323	40,817	5,030	32,860	0	5,187	755	0	1,347	52
1989	1	8	5,310	26,074	4,524	6,753	24	757	0	0	2,453	0
1990	236	3,241										
Atlanta												
1988	3,230	16,944	21,101	24,473	26,247	6,518	9,042	15,246	3	1,999	473	0
1989	939	4,047	14,766	38,133	16,314	4,522	2,918	2,916	79	0	430	0
1990	5,690	19,545										
Austin												
1988	3,609	26,193	13,363	5,256	2,341	5,883	1,056	2,322	0	1	488	0
1989	399	2,442	5,604	10,488	4,357	25	663	1,449	0	2,873	0	89
1990	1,540	29,453										
Brookhaven												
1988	0	6,370	33,634	10,113	2,512	2,851	3,945	0	0	111	568	0
1989	509	5,944	12,239	1,284	6,592	1,932	18,488	379	115	0	0	0
1990	1,794	8,486										
Cincinnati												
1988	0	52	0	0	31,576	39,995	0	0	0	0	72	0
1989	0	1,891	92	29	7,466	44,900	0	2	0	2,854	0	0
1990	31,721	9,967										
Fresno												

1989	8,615	19,228	36,421	22,699	3,567	2,841	7,916	321	0	681	843	0
1989	0	737	1,575	3,525	2,427	13,305	0	1	1	400	1	0
1990	5,224	1,893										
Kansas City												
1988	2,205	52,052	9,092	9,734	1	2,184	14,019	3,232	70	0	198	0
1989	383	33,865	8,449	20,824	4,103	13,770	30	0	1,675	869	1,603	0
1990	2,738	11,350										
Memphis												
1988	4,887	56,796	7,795	51,668	12,523	4,451	3,981	1,567	5,385	711	1,213	0
1989	2,358	36,121	21,869	19,948	37,011	17,217	1,572	763	182	2,150	1,670	9
1990	11,325	35,118										
Baden												
1988	648	11,472	624	6,120	8,677	763	212	1,718	1,170	1,738	312	0
1989	941	6,003	0	1	0	1,119	0	682	0	1,319	298	0
1990	0	5,323										
Philadelphia												
1988	1,073	21,000	9,267	25,858	3,999	1,756	761	849	106	1,153	5,849	0
1989	1,971	23,539	6,943	12,953	5,460	371	0	0	0	0	654	0
1990	0	18										
National												
1988	24,541	256,750	168,626	196,738	96,473	100,842	40,932	32,462	7,489	6,384	11,483	52
1989	7,501	108,557	76,847	141,459	88,254	103,914	23,695	6,949	2,052	10,465	7,111	98
1990	40,300	124,804										

BOBs (INF/BNF) 1989 vs 1990 3-2-90

	3/3/89 Inventory	Current Inventory	3/3/89 Cum Rec's	Current Cum Rec's	% Change Invent.	% Change Rec's
AMSC	8,108	6,270	250,927	195,163	-22.7%	-22.2%
ATSC	1,725	253	286,432	273,875	-85.3%	-4.5%
AUSC	5,869	7,707	354,457	237,303	31.3%	-33.1%
DSC	7,248	6,025	231,472	149,972	-16.9%	-35.2%
CSC	21,158	21,690	559,280	428,338	2.5%	-23.4%
FSC	25,215	18,572	368,703	328,271	-26.3%	-11.0%
KCSC	2,007	11,860	264,057	265,631	490.9%	0.6%
MSC	17,447	9,786	334,775	216,310	-44.4%	-35.4%
OSC	11,048	6,835	218,644	201,278	-38.1%	-8.0%
PSC	14,019	10,151	389,673	287,876	-27.6%	-26.1%
TOTAL	114,864	99,149	3,258,642	2,584,017	-13.1%	-20.7%

CPGIMO (ALT-G for graph) (ALT S - FOR MEMO)

Monthly Trend Analysis
Blocks-Out-Of-Balance Inventory
Date: 2-23-90

Monthly Trend Analysis
Blocks-Out-Of-Balance Inventory
Date: 2-23-90

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Andover												
1988	4,010	25,443	36,913	25,357	1	0	4,466	7,860	3,300	6,641	9,114	3,116

1989	2,965	11,029	6,451	14,851	12,212	10,032	2,183	2,448	1,399	1,736	2,348	1,644
1990	3,884	10,561										
Atlanta												
1988	1,659	1,604	1,487	21,389	5,852	935	232	5	463	340	623	0
1989	222	2,531	456	1,834	1, 79	645	317	901	187	145	69	1,388
1990	112	1,365										
Austin												
1988	105	411	5	166	11,254	7,500	5,049	2,513	3,708	2,982	2,572	46
1989	7,612	10,644	7,050	12,783	5,184	4,281	1,389	2,466	1,736	1,841	1,403	344
1990	3,575	10,720										
Brookhaven												
1988	3,434	4,259	8,561	10,557	18,327	13,992	8,157	2,109	1,784	2,269	4,379	1,188
1989	2,188	4,459	13,876	24,294	11,008	9,678	7,582	1,791	775	1,515	1,342	185
1990	2,001	3,388										
Cincinnati												
1988	12,396	14,933	9,514	22,014	26,850	2,112	2,876	3,430	2,166	3,286	826	453
1989	9,115	19,660	22,247	22,928	18,649	4,617	4,804	2,527	1,849	3,157	1,309	192
1990	14,771	19,774										
Fresno												
1988	290	1,136	9,113	35,449	1,001	10,343	4,604	2,616	149	56	4,281	0
1989	2,710	17,432	14,361	39,885	36,421	8,769	1,964	14,783	152	182	9,600	0
1990	84	5,650										
Kansas City												
1988	5,519	12,385	13,290	9,562	16,672	8,217	694	163	168	559	223	76
1989	2,397	12,694	8,697	4,367	44,210	17,535	388	1	445	86	520	0
1990	97	4,869										
Memphis												
1988	4,658	16,609	6,827	15,329	14,773	8,392	2,472	983	1,234	1,098	898	118
1989	10,388	17,437	7,058	14,272	3,414	2,679	3,080	839	874	1,154	1,660	13
1990	2,744	9,542										
Ogden												
1988	181	59	347	180	35,325	13,867	1,341	3,885	1,835	1,264	2,577	98
1989	6,539	11,890	26,690	27,682	59,944	29,721	1,881	1,928	1,361	2,291	1,482	814
1990	3,336	6,205										
Philadelphia												
1988	2,408	11,147	2,535	11,595	10,992	12,176	1,332	1,011	2,854	744	729	359
1989	2,295	11,150	2,002	7,901	71,931	19,689	2,696	254	926	139	329	6
1990	1,819	4,059										
National												
1988	34,580	88,206	87,702	151,598	141,647	76,734	31,223	23,695	16,861	17,239	28,222	5,454
1989	46,431	118,926	103,088	170,797	258,342	107,446	26,044	28,638	9,704	12,166	19,661	4,586
1990	31,675	78,333										

REJECTS (INF/BNF) 1989 vs 1990 3-2-90

	3/3/89	Current	3/3/89	Current	% Change	% Change

	Inventory	Inventory	Cum Rec's	Cum Rec's	Invent.	Rec's
ANSC	17,678	9,871	40,634	24,433	-44.2%	-39.8%
ATSC	18,480	10,459	34,775	25,543	-43.4%	-26.5%
AUSC	18,995	10,108	34,315	19,456	-46.8%	-43.3%
BSC	11,631	8,131	38,966	22,407	-30.1%	-42.5%
CSC	19,450	14,575	39,510	30,047	-25.1%	-24.0%
FSC	18,882	13,689	41,992	29,744	-16.9%	-29.2%
KCSC	18,884	13,742	29,507	24,604	-27.2%	-16.6%
NSC	21,936	11,774	41,541	17,957	-46.3%	-56.8%
OSC	24,398	16,220	43,423	33,213	-33.5%	-23.5%
PSC	29,455	11,293	36,524	27,836	-53.8%	-23.8%
TOTAL	194,789	121,862	390,589	285,260	-37.4%	-32.7%

(PSDM) (ALT-G for graph) (ALT S - FOR MEMO)

Monthly Trend Analysis
Reject Inventory
Date: 2-23-90

Monthly Trend Analysis
Reject Inventory
Date: 2-23-90

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Andover												
1988	10,223	17,695	25,210	38,653	49,832	62,466	38,209	21,077	16,498	13,571	12,347	10,837
1989	7,278	14,201	20,041	25,664	39,552	60,159	45,349	18,495	11,610	8,585	9,080	9,042
1990	8,025	9,392										
Atlanta												
1988	9,231	21,376	31,406	39,688	42,850	56,319	36,127	33,888	20,448	14,462	14,916	7,716
1989	8,953	15,569	19,950	21,612	47,275	46,817	34,839	25,655	18,564	10,801	14,049	6,113
1990	4,400	8,470										
Austin												
1988	10,745	26,787	28,465	38,230	39,851	49,388	34,556	24,388	18,616	13,948	18,946	9,461
1989	8,155	14,981	30,307	35,113	49,649	47,909	22,969	13,187	10,864	7,184	8,305	7,699
1990	5,263	8,471										
Brookhaven												
1988	10,207	17,824	19,373	25,066	33,043	41,552	35,206	25,618	14,127	10,133	16,869	9,743
1989	6,431	12,823	18,878	20,346	30,544	31,637	29,725	16,244	8,581	6,998	8,695	5,486
1990	5,423	6,785										
Cincinnati												
1988	4,725	15,117	21,216	23,981	32,586	48,966	29,293	18,266	11,121	8,832	11,706	5,291
1989	7,681	16,201	24,362	31,627	46,032	58,033	38,880	12,339	8,568	6,425	8,483	5,382
1990	4,664	12,163										
Fresno												
1988	5,441	20,689	31,428	35,273	43,825	41,363	41,933	32,493	19,849	14,264	15,697	5,909
1989	13,473	17,381	28,081	35,442	56,864	64,836	45,341	19,266	15,865	12,374	14,775	5,185
1990	7,213	13,155										
Kansas City												
1988	5,414	18,498	31,400	31,443	44,635	49,902	34,208	31,472	16,759	11,364	13,488	7,087
1989	6,329	14,483	29,822	30,516	42,540	84,050	88,147	38,320	21,189	13,341	10,884	8,135
1990	7,529	12,822										

Memphis												
1988	6,737	17,941	30,468	29,918	36,860	40,080	31,299	17,489	12,414	10,331	9,526	6,347
1989	5,198	19,032	33,895	29,748	36,519	36,500	24,416	21,024	11,625	8,996	10,392	5,029
1990	3,499	9,485										
Ogden												
1988	6,665	25,055	34,582	34,795	55,546	55,776	31,978	20,420	14,977	10,184	10,257	4,122
1989	5,893	18,435	28,728	30,144	41,721	51,955	27,231	15,410	12,575	9,349	9,871	7,314
1990	3,743	11,829										
Philadelphia												
1988	7,378	13,827	25,943	32,258	38,643	44,029	39,342	21,582	15,635	12,728	9,288	9,683
1989	11,183	20,640	30,927	40,241	45,792	77,106	49,915	19,415	17,300	12,536	10,372	7,500
1990	5,707	9,941										
National												
1988	76,784	194,109	279,492	329,165	456,071	511,841	343,151	238,613	159,044	119,817	133,252	75,596
1989	79,774	164,886	264,991	300,453	450,488	559,010	398,812	199,555	134,743	95,909	104,928	67,026
1990	55,486	101,863										

UNID REMIT 1989 vs 1990 3-2-90

	3/1/89 Inventory	Current Inventory	3/1/89 Cum Rec's	Current Cum Rec's	% Change Invent.	% Change Rec's
AMSC	1,681	938	2,596	1,340	-44.2%	-48.4%
ATSC	1,936	1,387	1,894	1,375	-18.0%	-27.4%
AUSC	457	842	369	369	44.9%	0.0%
BSC	1,462	1,493	2,041	725	2.1%	-64.5%
CSC	1,042	824	1,417	1,374	-21.0%	-3.0%
FSC	2,282	2,464	1,648	1,368	8.0%	-17.0%
KCSC	870	2,468	334	783	181.1%	134.4%
MSC	1,828	1,305	1,639	621	26.9%	-62.1%
OSC	836	1,019	940	917	21.9%	-2.4%
PSC	787	1,444	500	758	83.5%	51.6%
TOTAL	12,390	14,204	13,378	9,630	14.6%	-28.0%

(PSIN) (ALT-G for graph) (ALT S - FOR MEMO)

(Pg3n) COMBINED INF OTHER THAN FULL PAID RETURNS

CUMULATIVE AS OF MARCH 1 1989 & FEB 28 1990

CENTER	1989 VOL PROC	1989 ERRORS	1989 ERROR %	1990 (MORE ***** VOL PROC	1990 ERRORS	1990 ERROR %	DIFF 89vs88	ADJUSTED ERROR VOL DIFF
AMSC	1,926,203	289,242	14.52%	2,465,537	251,735	10.21%	-4.34%	(106,974)
ATSC	2,139,595	378,905	17.72%	1,802,349	276,246	15.33%	-2.39%	(43,085)
AUSC	2,111,620	332,725	15.76%	2,010,802	288,578	14.35%	-1.41%	(28,261)
BSC	1,064,588	200,145	18.80%	1,212,440	186,411	15.37%	-3.43%	(41,531)
CSC	3,918,978	571,060	14.57%	4,087,864	588,316	12.84%	-2.54%	(123,927)
FSC	1,479,115	270,348	18.28%	1,798,052	298,935	16.63%	-1.65%	(29,687)
KCSC	1,940,691	280,597	14.46%	2,122,988	278,915	13.14%	-1.32%	(28,040)
MSC	2,346,353	393,910	16.79%	2,370,882	362,590	15.17%	-1.62%	(38,627)
OSC	2,870,405	391,405	13.59%	3,056,796	328,193	10.73%	-2.86%	(87,252)
PSC	1,861,454	284,301	15.27%	2,165,175	291,440	13.46%	-1.81%	(39,248)

	20,858,202	3,273,638	15.69%	23,914,085	3,151,379	13.18%	-2.52%	(601,872)

(PSEMO) (ALT $ - FOR MEMO)

(Pg1p) COMBINED IMF FULL PAID RETURNS

CUMULATIVE AS OF MARCH 1 1989 & FEB 28 1990

	1989			1990 (MORE ====>)			DIFF	ADJUSTED ERROR VOL
CENTER	VOL PROC	ERRORS	ERROR %	VOL PROC	ERRORS	ERROR %	89vs90	DIFF
ANCC	284	182	63.64%	4,201	920	21.49%	-42.15%	(1,804)
ATSC	2,007	795	39.61%	9,166	2,104	22.95%	-16.66%	(1,527)
AUSC	28,134	5,939	21.11%	11,474	2,190	19.09%	-2.02%	(232)
BSC	4,574	1,112	24.31%	13,294	2,878	21.65%	-2.66%	(354)
CSC	43,344	9,717	22.42%	56,175	12,494	24.90%	2.48%	1,246
FSC	10,867	2,133	19.63%	11,643	2,454	21.08%	1.45%	169
KCSC	1,635	282	27.25%	819	204	24.91%	-2.34%	(19)
MSC	5,259	1,193	22.68%	3,723	892	23.96%	1.27%	47
OSC	8,456	1,625	19.22%	35,641	6,944	19.48%	0.27%	95
PSC	566	249	43.99%	16,465	3,485	21.07%	-22.10%	(3,638)
	104,528	23,227	22.22%	156,681	34,685	22.14%	-0.08%	(131)

(PSEMO) (ALT $ - FOR MEMO)

IMF UNPOSTABLE PERCENTAGE (Based on MCC input) 3-2-90

(PSEMO)

	1989 Period	1990 Period	1989 Cumul	1990 Cumul
ANSC	1.5	1.3	1.6	1.3
ATSC	2.4	2.2	2.0	2.3
AUSC	2.3	1.8	2.0	1.6
BSC	2.5	2.1	2.1	1.8
CSC	1.8	1.6	1.6	1.4
FSC	3.4	3.6	2.5	2.5
KCSC	1.3	1.4	1.5	1.2
MSC	1.8	1.6	1.8	1.6
OSC	1.9	1.7	1.8	1.7
PSC	1.6	1.7	2.0	1.8
TOTAL	2.0	1.9	1.9	1.7

IMF UNPOSTABLE PERCENTAGE (Based on MCC input) 3-2-90

(PSEMO)

	1989 Period	1990 Period	1989 Cumul	1990 Cumul
ANSC	1.4	1.1	3.7	1.5
ATSC	2.4	2.1	2.1	2.1
AUSC	1.3	1.5	1.9	1.4
BSC	2.0	1.3	2.1	1.6
CSC	1.1	1.0	1.4	1.2
FSC	2.5	1.3	2.1	1.7

ACC	1.2	1.2	2.2	1.4
[illegible]	1.2	1.4	1.6	1.5
PSC	1.4	1.4	2.0	1.7
TOTAL	1.7	1.3	2.2	1.4

(Pg2a)

Individual Income Tax Returns
Electronically Filed
(PSHD) March 1, 1990

Weekly Receipts	Cincinnati	Dayton	Andover	Total
Accepted	131,354	176,710	92,634	429,698
EFS	5,496	11,226	3,655	20,377
Accuracy Rate	96.4%	93.6%	96.1%	95.2%
Unpostables	5,409	4,390	1,784	11,783
Cumulative Receipts				
Accepted	1,388,568	1,052,081	523,488	2,964,137
EFS	42,709	58,894	21,271	142,874
Accuracy Rate	95.5%	94.4%	95.9%	95.2%
Unpostables	17,512	9,299	3,784	30,595
Cumulative to date in 1989				776,967
1990 increase over 1989				281.5%

(PSUP) (ALT 8 - FOR MEMO)

(END)

STEPS TAKEN ON INTEGRITY ISSUES

Mr. ROYBAL. Would you please submit that for the record? To go back to the assistance regarding tax matters, it is my understanding that you have established a so-called blue ribbon panel. Is that correct?

Mr. GOLDBERG. Okay. Yes. As you know, I was on the job about two weeks and there were some Oversight Subcommittee hearings on integrity issues affecting the Internal Revenue Service. And the integrity of this institution and the public confidence in our integrity, that is why it all works. And that is something we all view as terribly important. And we have taken a number of steps, both as a result of coming out of those hearings, but also coming out of our own look at integrity issues.

And we have done a number of things. One, and I think probably the most important, is redefining our relationship with the Inspector General of the Treasury Department. And I think that we have created a relationship with him that will assure that clearly independent investigations of senior IRS officials and management officials are conducted. The Inspector General's office will conduct oversight reviews of our internal audit function to be sure that there are controls in place and they are working the way they should. And that is a major step.

Another step that we did take in this area was to get a group of outsiders—lawyers, professors, and another Inspector General from a different agency—to take a look at how we are dealing with these issues, to just be sure we did not miss something, or that there is not something out there that we were not paying enough attention to. A kind of reality check and recheck on what we have been doing. And we expect that group to report back to us within the next month or so on an interim basis.

It reflects part of an attitude that this agency needs to be open. We need to ask for help when we need help. We need to listen to the outside world and pay attention.

Mr. ROYBAL. This blue ribbon panel is made up of how many members?

Mr. GOLDBERG. I think it is about seven, Mr. Chairman. We can give you that list. It includes members such as former Chief Judge of the Tax Court, Sam Sterrett. We can give you our——

Mr. ROYBAL. All right. Will you provide that for the record?

Mr. GOLDBERG. Yes, sir.

Mr. ROYBAL. And then add to that your expectations. Do you think that panel will be recommending it will be beneficial to the agency?

Mr. GOLDBERG. Yes, sir.

Mr. ROYBAL. I am not so sure that I agree with too many panels. But——

Mr. GOLDBERG. They can certainly distract us from what we are doing, but I think the importance of this issue, and the significance of the questions being raised justify the effort.

Mr. ROYBAL. It is important, however, to get outside opinions and to get recommendations and so forth.

Mr. GOLDBERG. We will provide you with that material. I am not sure. I thought we had provided the subcommittee—but maybe we

did not—with the interim integrity report that sort of lays out all the actions we are taking in a wide variety of areas. We will provide you with all of that. It is something we are very proud of, and we would be happy to share it with you.

[The information follows:]

The Commissioner's Interim Report on Integrity Within the Internal Revenue Service

January 1990

Internal Revenue Service

INFORMATION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

January 30, 1990

MEMORANDUM FOR DEPUTY SECRETARY ROBSON

FROM: Fred T. Goldberg, Jr.
Commissioner of Internal Revenue

SUBJECT: Interim Report on Integrity Within the IRS

Attached for your information is an interim report on our efforts to address ethical and integrity issues that surfaced as a result of our own Strategic Initiative on Ethics and the hearings on employee misconduct held by the Government Operations' Subcommittee on Commerce, Consumer, and Monetary Affairs last summer.

The IRS takes seriously the allegations of misconduct and we believe that the steps outlined in this report represent a significant effort aimed at correcting the deficiencies we have identified, as well as improving overall awareness of integrity issues.

I continue to believe that the agreement we have reached with Treasury's Inspector General is a most significant step in the right direction. It assures that the Inspector General's Office will provide ongoing oversight of IRS Inspection activities and will undertake investigations of any allegations against top IRS managers or Inspection employees where the independence of IRS Inspection could be questioned. As such, it will preserve both the appearance and the reality of an effective, independent IRS Inspection function.

To provide additional outside review of our actions to date, we have formed a Commissioner's Integrity Review Panel, composed of members from the tax community, government officials, and academicians. In that same spirit of openness, we would welcome any comments you and others at Treasury may have on our plans and actions to date.

Attachment

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THE COMMISSIONER'S INTERIM REPORT ON INTEGRITY WITHIN THE INTERNAL REVENUE SERVICE

This report describes the actions taken by the Internal Revenue Service to assure ourselves, the Treasury Department, the Congress, and the taxpaying public that the Agency is committed to the highest ethical standards of conduct. Integrity is the bedrock of tax administration. In order for our system of self-assessment to work properly, the public must have confidence that each Internal Revenue employee is held to the highest standard of professional and ethical conduct.

For many years, IRS has had the reputation of having stringent rules of conduct and a model Inspection function that monitors adherence with those rules. (See Appendix A for the current Rules of Conduct.) Assuring that we maintain these high standards requires constant attention to integrity by all IRS employees. It's what we care most about. Therefore, when both our Strategic Initiative on Ethics and congressional oversight hearings raised questions about ethical conduct, we took those questions seriously.

For more than a year, our Strategic Initiative on Ethics has been assessing our strengths and weaknesses and looking for ways to promote integrity and ethics awareness in IRS. Last summer, the Government Operations Subcommittee on Commerce, Consumer, and Monetary Affairs (the Subcommittee) completed its own investigation of eight specific incidents of alleged misconduct involving approximately 25 current and former IRS officials and

held several days of public hearings on the integrity related issue. Specifically, its focus was on:

1. How we manage a large decentralized organization to assure that the highest standards of integrity are being met;
2. The appearance and reality of whether Inspection is capable of investigating itself and other IRS employees, particularly senior managers and executives;
3. How we provide an environment in which employees feel they are safe from retaliation if they report what they consider to be breaches of conduct; and,
4. Ensuring the highest integrity of executives and managers.

In an agency of 120,000 employees, we will rise or fall on how well our policies, procedures and controls assure that we minimize instances of misconduct. Accordingly, while the Subcommittee's investigation legitimately focused on specific cases, we have looked at these cases to determine what, as managers, we need to learn to assure that IRS is an agency of highest integrity. The purpose of this report is to explain the actions taken and underway to improve 1) integrity awareness in the IRS, 2) our Inspection programs, 3) procedures and internal controls established to deter misconduct, and 4) our ability to detect, investigate and properly discipline acts of wrongdoing that occur.

This report does not address the specific allegations which were made during the hearings. Many of the allegations involved former IRS employees who had previously been investigated by Inspection and/or the Treasury Inspector General, and which, in some cases, had been referred to the Department of Justice for a prosecutorial decision. Other allegations had been investigated and had been dealt with administratively or had been dismissed for lack of substance. Others are still under investigation. Following the hearing, substantially all of the allegations were referred to the Inspector General for a review of all previous IRS investigations and for an investigative decision on any new allegations involving senior officials. As a result of this ongoing review by the Inspector General, Inspection has agreed to re-open investigations of two previously closed matters. In addition, two matters have been referred to the Justice Department for investigation of possible criminal misconduct. Other allegations are being investigated or are still under review by the Inspector General.

The action plan attached to this report reflects the actions determined to be necessary to address deficiencies or policy issues which surfaced as a result of the hearings. (See Appendix B.) The action plan lists 58 action items ranging from significant policy and organizational reviews to changes in operating procedures. Many of these actions are already complete; others are nearing completion. While we believe that

this action plan is a solid beginning, we are committed to the view that the area of ethics requires constant vigilance. These actions, along with those undertaken prior to the hearings, are an essential part of our ongoing commitment to high professional and ethical standards.

As we stated at the hearing, the IRS believes that outside oversight and constructive criticism are healthy and necessary components to improving its service to the public. Since the hearings, the IRS has sought the counsel of a number of outside stakeholders: the Department of Treasury, the General Accounting Office, the American Bar Association, the American Institute of Certified Public Accountants, and other professional groups that have an interest in the operations of the IRS.

The IRS also established the Commissioner's Integrity Review Panel composed of members from the tax community, government officials, and academicians who will provide their views on the integrity issues we have identified and the actions we are taking to address those issues. (See Appendix C for the list of members.) The panel has already begun their work and we expect to receive their findings and recommendations this summer. We view this effort as extremely important in its own right -- an independent "reality check" of the issues we've defined and the reasonableness of our responses. Of equal importance, formation of this panel reflects our ongoing commitment to open ourselves for review and advice by our outside stakeholders.

This report contains six chapters that outline the major steps IRS is taking to deal with the problems that we have identified:

1. Increased Reliance on the Treasury Inspector General
2. Ensuring the Highest Integrity of IRS Executives and Managers
3. Improving IRS' Inspection Organization
4. Ensuring Effective Control over Criminal Investigation
5. Encouraging Employee Reporting of Wrongdoing
6. Improving the Management of a Decentralized Agency

I. INCREASED RELIANCE ON THE TREASURY INSPECTOR GENERAL

The Office of the Inspector General of the Department of the Treasury plays a critical role in ensuring the integrity of the Department's workforce and programs. With the enactment of the Inspector General Act Amendments in late 1988, and in light of the congressional hearings which focused on how IRS investigates and adjudicates allegations of wrongdoing by its senior officials, IRS has been working with the Office of the Treasury Inspector General to define our mutual roles in order to increase the effectiveness of both offices. Specifically, these joint efforts concentrated on finding the best way to strengthen the Treasury Inspector General's Office to enable it to provide effective oversight of IRS' Inspection activities.

The agreement reached between the IRS and the Office of the Inspector General, and approved by the Deputy Secretary of the Treasury, provides that the Office of the Inspector General will have the following responsibilities:

1. The investigation of all allegations of misconduct concerning the Commissioner, the Senior Deputy Commissioner and Inspection employees;
2. The investigation of all other allegations of misconduct where the independence of Inspection may be questioned. In this regard, all allegations of misconduct involving IRS executives and managers (GM-15 and above), and all other allegations involving significant or notorious matters, will be referred to the Office of Inspector General. We anticipate that staff employed by the Office of the Inspector General will conduct most investigations arising out of such referrals;
3. The effective oversight of Inspection operations. In this regard, the IRS has already recommended a number of program reviews for inclusion in the Office of Inspector General's Quality Assurance Plan; and
4. The conduct of special reviews of IRS operations deemed appropriate by the Office of Inspector General.

(See Appendix D for a copy of the agreement and a copy of IRS' recommended areas for review by the Inspector General.)

To fund these additional activities, IRS agreed to transfer 21 staff years and approximately $2 million to the Treasury Inspector General. Funding was provided by IRS this fiscal year in order for the Treasury Inspector General's Office to begin these activities as soon as possible; however, this is a permanent transfer of funds and future Treasury budgets will reflect this adjustment in funding and staffing for the Inspector General's Office. The transfer of funding from IRS this year will not result in a reduction of funding for Inspection.

In reaching this agreement, we wanted to ensure that the Inspector General had sufficient resources to conduct high quality investigations in a timely fashion. During our discussions, all options were explored without regard to statutory or budgetary considerations. This arrangement was determined to be the best solution and we believe that these steps will provide the Inspector General with the resources to dedicate to independent and effective oversight of IRS.

These changes in no way impugn the current quality of Inspection's investigations. The changes are intended to ensure public and employee confidence that allegations of misconduct will be independently investigated. Although we believe that our Inspection function is generally structured to assure independent and impartial investigations, we intend to avoid even the appearance that independence is lacking.

II. ENSURING THE HIGHEST INTEGRITY OF IRS EXECUTIVES AND MANAGERS

Another focus of the Subcommittee was on whether IRS, as an organization, properly detects and deals with alleged abuses, particularly those occurring at the highest management levels. There are approximately 1,500 IRS employees who are GM-15 or above, approximately 300 of whom are IRS executives. Many of the allegations of impropriety made during the hearings involved current and former GM-15s and above.

Throughout the hearings, the Subcommittee emphasized its belief that the vast majority of IRS' 120,000 employees are dedicated and honest. We agree with this assessment. However, the Subcommittee questioned whether senior managers ahd executives are given preferential treatment in matters requiring conduct investigations and disciplinary actions. While we do not believe this practice is widespread, more needs to be done to assure that managers are held to the highest professional and ethical standards and that all employees recognize that these standards are universally applied. We also believe that managers must model these standards.

Fostering a climate of high professional and ethical standards is an ongoing process. There is no single act or decision that guarantees agency-wide integrity. However, a key ingredient is to promote these high standards by rewarding

excellence -- and confronting lapses -- in ethical and professional conduct when we make decisions on executive and merit pay awards; in the selection of future IRS executives for the Executive Development Program; in career placement decisions under the control of IRS' Executive Resources Board; in executive conferences and managers meetings; and in the field Business Reviews.

Increased awareness of the Treasury Inspector General's role in investigating allegations of misconduct by senior IRS executives and managers will foster employees' confidence that executives and managers are subject to vigorous outside review. It should also foster reporting of real or perceived misconduct by employees who otherwise might be fearful of retaliation.

In addition, a number of other initiatives are underway at IRS to encourage the highest standards of ethical behavior by all of its employees, with particular emphasis on managers and executives:

A. IRS has had written Rules of Conduct in place for years which establish strict expectations for IRS employee conduct. During the hearings, IRS policies governing potential conflict of interest situations involving employee investments were scrutinized. In addition, questions were raised concerning the uniform application of sanctions when the rules were violated. Because of these concerns, IRS is now reviewing its rules dealing with the following issues:

1. While the Rules of Conduct already prohibit employee involvement in an investigation or examination of any entity in which he or she has a private interest, the rules relating to employee investment in -- and post-IRS employment by -- entities under examination or investigation are being reviewed to assure that IRS employees cannot benefit from inside information or by influencing an open examination or investigation (whether or not they are directly involved in that particular matter). Although it is our goal to provide clear guidance to our employees, it is difficult to write explicit rules that deal with every conceivable ethical conflict. For example, an IRS employee should not be prohibited from investing in -- or going to work for -- any Fortune 500 company that might be currently under IRS examination if that employee has no involvement in the examination or any access to information regarding that examination. However, an employee clearly should be precluded from having any influence on a tax case or a contracting decision if that employee might benefit from, or there is an appearance that the employee might benefit from, any particular outcome in that matter.

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We are also reviewing the rules as they concern joint investments involving managers and their superiors and subordinates. For example, a group of employees may jointly invest in a business and one of the employees may subsequently be promoted to a supervisory position. Should these employees be required to relinquish their investment; should they be required to disclose it on some basis within the Agency or on a publicly available disclosure statement; or do we need a specific rule or procedure at all? Our review is aimed at determining the guidance needed by employees in making these investment decisions and rules that are helpful to management and Inspection in monitoring real or perceived integrity violations.

It is difficult to draw lines in these gray areas. On one hand it is improper, if not impossible, to regulate every aspect of an employee's private life. On the other hand, it is clear that additional interpretive guidance and training is needed on a continuing basis to reinforce the rules in these areas. Guidance is being developed both in the form of a publication

for IRS managers and as part of the Strategic Initiative on Ethics discussed later in this report.

2. We have also been studying whether it is appropriate to prescribe a recommended or required range of sanctions for each violation of the Rules of Conduct. Currently, management, with the advice of the Personnel office, determines sanctions for each case, taking into account such factors as severity of the case, harm to the Service, the public or other employees, and whether or not it is a first offense. We have been exploring the use of prescribed sanctions in the private sector and in other Federal agencies and we are giving careful consideration to the necessary balance between the need for uniformity on the one hand and the uniqueness of each case on the other. Our concern in this area is to assure even-handedness in determining appropriate sanctions for misconduct. Developing a list of mandatory sanctions runs the risk of applying harsh sanctions when the facts in a particular case argue for a more lenient punishment or vice versa. The matter of sanctions remains,

therefore, under consideration. It should be noted that any list of sanctions would have to be negotiated with the National Treasury Employees Union.

In the meantime, we are developing a management information system that will allow us to track disciplinary actions within the IRS. The absence of any such system is a material weakness that should be remedied promptly. Once implemented, it will permit us to review disciplinary actions taken in any office throughout the country and help us maintain consistent treatment for employees at all levels of the organization and in all regions of the country.

B. IRS is reviewing its policies with respect to hiring or tranferring employees who are single heads of household or who have spouses who also are employed -- two of the dominant family structures in society today. In its hiring and transferring practices, IRS must balance its need to hire the best person for the job with these family situations. In particular, we are reviewing our policies with respect to hiring and transferring employees and their spouses to ensure that these policies are clearly articulated, unambiguous, and within statutory and regulatory guidelines. We are

considering issuing procedural guidance and an employee notice concerning employment and advocacy restrictions. In addition, we will articulate a Service-wide policy regarding special transfer provisions.

C. While we believe that travel voucher abuse is rare, our review of allegations involving travel voucher abuse led us to conclude that it would be prudent to require that travel vouchers of all employees be reviewed by the next higher management level. In November 1989, the self-authenticating authority of all IRS executives to approve their own travel vouchers was changed to require approval at the next higher management level. Until this change, the top executive in each office, generally Regional Commissioners, Assistant Commissioners, and District and Service Center Directors, could sign their own travel vouchers. That policy had been previously instituted to give more authority to executives working in distant locations. On reflection, that policy appears ill-advised. The policy was changed to protect IRS executives from allegations of impropriety and to deal with the appearance of, and potential for, abuse. In addition, periodic management reviews in this area will be conducted as part of the Business Review process (discussed later in this report).

D. The congressional hearings questioned the advisability of leaving a manager in a position for any extended period of time. A general policy of mandatory rotation of managers and executives does not appear to be a viable option because of locality pay inequities and relocation costs. While moving is a normal part of career progression in the IRS, employees making mandatory lateral moves cannot be adequately compensated and may even suffer significant monetary losses from those moves. Thus, a policy of mandatory rotation would reduce the pool of talented candidates for upper level management. However, in recognition that this is an issue that needs continued monitoring, the IRS will pay particular attention to this issue in our Business Reviews.

E. Because of the allegations that were raised concerning the oversight of Criminal Investigation activities, a series of recommendations are under consideration to strengthen, clarify and, where necessary, change Criminal Investigation's operating procedures. As discussed later in the report, the changes being made to Criminal Investigation's operating procedures will also require more active involvement by the District Director.

III. IMPROVING IRS' INSPECTION ORGANIZATION

A strong, independent Inspection service is crucial to the Commissioner's ability to oversee the decentralized operations of the IRS. Inspection ensures the integrity of our workforce by investigating the conduct and background of IRS employees and it protects the IRS against external attempts to corrupt or threaten its employees. Inspection also conducts independent reviews of IRS operations to ensure that policies and procedures are being adhered to, adequate controls are in place, and taxpayer rights are protected. As described above, the agreement with the Inspector General provides ongoing oversight of Inspection and assures that Inspection will not be involved in investigations where Inspection's independence could be questioned. We have also taken the following actions to strengthen our Inspection operation:

A. A toll-free Inspection Hotline was established to provide an anonymous method of reporting allegations of misconduct to the National Office. Various methods, including a letter from the Commissioner to all employees, have been used to publicize the new hotline. (See Appendix E.)

B. IRS acknowledged at the July hearings that the current management information system used by Inspection did not provide management with the information necessary

to adequately monitor its Internal Security activities. At that time, a new management information system had been designed and was undergoing testing in a pilot region. Changes to the program are being made now and we expect nationwide implementation by March 31, 1990. The new system has been reviewed by the General Accounting Office and our Internal Audit Division; as a result of those reviews, we have made a number of modifications to improve the system. We anticipate that GAO will continue to review the system and recommend changes and refinements as appropriate. The Inspector General has been requested to review the system to determine if it will provide accurate and reliable data to effectively manage Inspection activities and facilitate Inspector General oversight review.

C. We recently reviewed the organizational status of the Assistant Commissioner (Inspection). This was done to ensure Inspection's independence and autonomy within the IRS. We are considering several options on the title and grade level of the Assistant Commissioner. In addition, a long-term case grading study is underway which will determine the skill level needs for each grade level as well as any necessary grade level changes for Inspection employees.

D. Inspection's handbook has been revised regarding the procedures and criteria for initiating special inquiry and conduct cases, which are the two types of investigations when allegations of misconduct are made. Special inquiry cases are preliminary investigations of allegations that are not specific enough to determine if a conduct case is warranted. Conduct cases are initiated when there is a specific allegation against an identified employee. A review of these two types of investigations validated the continuing need for the special inquiry category to assure that a conduct case will not be initiated on IRS employees based upon non-specific and fragmentary information. In addition, administrative procedures are being revised to ensure that investigative actions are properly documented and thorough reports are prepared.

E. We have paid particular attention to ensure that Inspection is adequately staffed to carry out its responsibilities. For example, Inspection is the only organization in the IRS that has not been subject to the overall hiring freeze currently in effect. We have taken resources from across the board to insulate Inspection from budgetary cuts and we anticipate that Inspection will continue to grow in order to perform

its mission effectively. Our Fiscal Year 1991 budget request includes a 9.6% increase in staffing for Inspection.

Finally, in order for Inspection to be effective within the IRS, all employees must believe that Inspection is 1) truly autonomous, 2) committed to an aggressive mission of investigating fraud and misconduct, 3) responsive to employees who come forward with allegations of fraud or misconduct, and 4) committed to protecting the confidentiality of employees who report alleged misconduct. One of the ways to accomplish these goals is for Inspection to better educate all employees about its mission and achievements. Inspection already publishes the Inspection Digest and Highlights which contains information on Inspection's activities. Distribution of the Digest will be expanded to inform more employees of Inspection's role. In addition, Inspection has developed a quarterly publication to share summaries of investigations with IRS managers to alert them to potential integrity problems. The first edition of this publication -- Investigations and Trends -- was published in December 1989.

IV. ENSURING EFFECTIVE CONTROL OVER CRIMINAL INVESTIGATION

IRS' Criminal Investigation organization occupies a unique and important position in tax administration. Its 4,700 employees carry out investigations of criminal tax evasion and participate in many of the criminal investigations of organized

crime, narcotic traffickers, and money launderers. Because of its prominent position, it is absolutely vital that the Criminal Investigation organization be free from any charge of illegal, unethical or unprofessional behavior. The Subcommittee's investigation, which focused primarily on allegations of misconduct by certain former and current Criminal Investigation officials and managers, pointed out the need to review internal Criminal Investigation controls to prevent the possibility of future breakdowns in basic procedures or management oversight. IRS' review indicated that operating guidelines and procedures needed to be strengthened.

A. During the hearings, questions were raised concerning whether actions taken by Criminal Investigation officials were appropriate for the type of investigation they were conducting. Consequently, Criminal Investigation is reviewing and modifying undercover guidelines in addition to clarifying surveillance guidelines. The intent of these reviews is to preclude abuse of undercover and surveillance activities. The review should be completed and recommendations submitted by March 15, 1990. Criminal Investigation is also reviewing the adequacy of approval levels and the controls over the administrative case processes with the view of protecting the integrity of the tax system and assuring the public that the system is fair and free from

manipulation. The review should be completed and recommendations submitted by February 1990.

B. A series of new procedures aimed at limiting opportunities for abuse by Criminal Investigation managers has already been instituted or are under development:

1. Procedures have been revised concerning expenditures from Criminal Investigation's confidential funds for activities involving the Chief of a Criminal Investigation Division in an IRS district office. These will now require the approval of the District Director. Previously, the guidelines were not clear as to the level of approval.

2. New guidelines have been drafted and are under consideration which would require Chiefs of Criminal Investigation Divisions to report unique and unusual operational and tax administration matters through management channels to the Assistant Commissioner (Criminal Investigation) in Washington, D.C..

3. Revised guidelines now emphasize the requirement that Criminal Investigation managers maintain a diary or a calendar to record their activities, including expenditures of overtime.

4. New guidelines have been drafted and are under consideration regarding managerial involvement in Criminal Investigation field investigations.

C. An issue that arose during the hearings was the alleged improper destruction of documents regarding a criminal investigation. As a result, we are providing clearer guidance to group managers and Special Agents on the specific types of records that should be retained while a case is active and the retention/disposal schedule for retired records after the case is closed. The new guidelines will be issued shortly.

D. Another allegation made during the hearings involved the use of alcohol by Criminal Investigation employees during the course of investigations. Current IRS procedures clearly proscribe the use of alcohol by IRS employees during the course of their official business. However, on a limited basis, IRS undercover agents are permitted to consume alcohol as part of their assumed identities, when such behavior is necessary to the success of the operation. Criminal Investigation is reviewing the adequacy of the guidelines in light of two instances raised at the hearings to determine if clearer instructions are necessary for undercover agents.

E. The hearings also uncovered a situation in the Los Angeles District whereby an attorney made voluntary

payments for his clients without identifying these clients. At the time the payments were made, the attorney notified the IRS that the tax returns of these clients were being held in lockboxes in undisclosed locations, and that these returns would be filed if IRS would guarantee that his clients would not be prosecuted. While the use of the lockbox was unique, the attempt to secure protection from prosecution by a voluntary disclosure was not. Upon subsequent review, the Los Angeles District has suspended the lockbox agreement. We have also conducted a more comprehensive review of our voluntary disclosure policy as it relates to criminal investigations. A report has been submitted for approval containing a number of recommendations.

F. Finally, one of the allegations made during the July 1989 hearings was that a Criminal Investigation Division Chief involved himself in a criminal investigation in which he had a conflict of interest because he had been offered employment by the informant of the investigation. IRS rules clearly state that employees must avoid any situation which creates a conflict of interest or creates a reasonable question of a conflict of interest with official duties. While our rules are very specific in terms of conflicts or potential conflicts involving targets of

investigations, this particular situation raised certain questions as to the adequacy of our conflict of interest rules involving informants. Consequently, additional guidelines on self-disqualification from cases involving either real of apparent conflicts of interest have been developed and are under review.

The Criminal Investigation organization is also developing material to be used in a Continuing Professional Education course on ethics issues that pertain specifically to enforcement activities. This training, which uses case studies, will be given on an ongoing basis to its Special Agents and will be updated as needed.

Criminal Investigation also is improving its written guidance on standards for Special Agents during investigations by revising material that is currently in the Internal Revenue Manual. For example, the revisions provide additional guidelines on evaluating informant's motives, informant-agent relationships, and trial preparation. In the future, any needed changes in the IRM procedures will be reinforced by appropriate training.

V. ENCOURAGING EMPLOYEE REPORTING OF WRONGDOING

Employee reporting of misconduct accounts for almost 50% of Inspection's caseload -- an indication that the system is working reasonably well. Nonetheless, we must make an ongoing effort to create a climate where employees are assured that

upper level management encourages such reporting; will not retaliate if employees come forward; and is committed to promoting high ethical standards. To this end, management must clearly communicate its expectations and standards within its own ranks and throughout the Agency. More importantly, managers must embody those standards in all we do -- as the saying goes, we must "walk like we talk."

We believe that the actions summarized in this report -- the enhanced role of the Inspector General and our efforts to hold upper level managers and executives more accountable -- help create the climate we want. These are essential components of a cultural environment that rewards and promotes high standards and fosters accountability for those standards.

However, the issue of ethics and employee integrity cannot be addressed on a piecemeal basis. While many of the initiatives described in this report are important and will improve ethics awareness in the IRS, the issue of professional ethics and integrity must be dealt with from a larger perspective.

Accordingly, more than a year ago, IRS expanded its Strategic Issues Plan to establish a strategic initiative on the issue of ethics and integrity. The task force addressing Strategic Initiative ERR-17, "Improve Ethics, Integrity and Conduct Awareness", is chaired jointly by the Deputy Commissioner (Planning and Resources/Chief Financial Officer)

and the Assistant Commissioner (Inspection). Its charter is to examine alternatives for reinforcing the IRS' commitment to and awareness of its standards of professional ethics.

The ethics task force reviewed the Internal Revenue Manual, the IRS Mission Statement and other pertinent internal documents to assess the guidance provided to employees on the expected agency standards. The task force is also assessing current training given to employees in the area of ethics, integrity and conduct. This assessment will permit us to compare IRS programs with those offered in other government agencies and in the private sector to determine aspects that could be successfully adopted for use in the IRS.

Results to date indicate that there is a need to clarify the guidance given to employees, and that IRS' training programs have eroded over time and no longer provide either the emphasis or the necessary guidance on ethical issues. Although the material provided to all employees includes a brief discussion or pre-classroom reading on the Rules of Conduct and material on bribery awareness is being offered by Inspection to enforcement trainees, it was concluded that this is not sufficient. These basic training programs are being modified to address these deficiencies.

The task force has also studied how an effective training program can promote ethics within the IRS. The Strategic Initiative recommended that IRS develop a more aggressive

training program for new and current employees on ethics awareness. A contract to develop such a training program will be awarded shortly. The initial phase of this effort will focus on training for IRS executives and managers.

As a means of promoting employee involvement in reporting misconduct, IRS has taken several specific actions since the hearing. Recently, all IRS employees were reminded of various ways to report fraud, waste and abuse. Employees may call or visit their local Inspector, call or write their Regional Inspector, or visit the Regional headquarters office. They may also write to the national Inspection headquarters in Washington, D.C. or the Department of Treasury Inspector General. Employees have also been reminded that their confidentiality is protected on any integrity breach they report to Inspection.

As already reported, the IRS has also installed a toll-free hotline that allows IRS employees to report misconduct and fraud directly to the National Office. (The Treasury Inspector General maintains a separate hotline.) The toll-free hotlines promise complete anonymity to employees who might otherwise be reluctant to report wrongdoing.

The hearings also detailed a case in which three IRS managers reported misconduct on the part of their immediate supervisor which resulted in alleged retaliatory actions against them. One of the complaints arising out of this situation was

the period of time it took to address their formal grievances. The IRS has subsequently revised its grievance procedures to tighten the time frames for processing a grievance. In addition, a new publication, IRS Manager, includes a discussion of the statutory rights of employees to raise any case of alleged retaliation and other prohibited practices with the Office of Special Counsel.

VI. IMPROVING THE MANAGEMENT OF A DECENTRALIZED AGENCY

IRS is one of the largest government agencies, employing 120,000 employees throughout the United States and abroad. IRS has 10 service centers and 63 district offices, comprising over 1,000 posts-of-duty, located around the country. These service center and district offices are grouped into seven regions with regional offices overseeing and coordinating compliance and support programs. IRS' headquarters in Washington, D.C. manages compliance and support programs at the national level and provides guidance to individual offices on procedural, legal and policy matters.

As an internal control to insulate case-related decisions from any political interference and to provide greater efficiency and service to taxpayers, IRS' operations and authority are intentionally decentralized. Examinations, collection matters and criminal investigations are handled out of local offices. Regions review district operations for adherence to procedural guidelines. The National Office reviews

regions for management effectiveness. The Criminal Investigation function requires more stringent review at regional and national levels if cases involve undercover operations. All cases involving grand juries require approval by Department of Justice attorneys in addition to IRS reviews. In addition, Inspection's Internal Audit function reviews all offices for adherence to procedures and programs selected for review.

The importance of the decentralized structure of the IRS cannot be overemphasized. Given its mission and its importance to the funding of the government, IRS must be impervious to political influence. At the same time, however, decentralization necessarily raises the issue of uniform and equitable tax administration, as well as concerns over proper monitoring and supervision of performance and conduct. This issue was a subject of a joint GAO/IRS management review in 1988 and will continue to be an all-important topic.

The IRS continually looks at whether it is administering the law on an effective and consistent basis both nationally and internationally. The focus on ethics and integrity is only one facet of this issue. Our compliance programs and service to

taxpayers are being scrutinized in a world being revolutionized by technological and social changes. As the world changes, our balance between centralized and decentralized operations must also change. How we respond to a rapidly changing environment will determine how effectively we accomplish our mission.

Effective management of a decentralized IRS requires four things:

1. Strong accountability among local, regional and national offices.
2. Clear communication of policies by the National Office.
3. In-depth reviews of operations on an ongoing basis to ensure that policies and procedures are being met.
4. A willingness to change in response to a changing environment.

To better manage the agency, IRS is instituting a new "Business Review" program, whereby the National Office reviews and evaluates field operations in conjunction with IRS' Strategic Business Plan. IRS' Strategic Business Plan establishes the agency's long term goals and enumerates the methods for reaching each goal.

Under this program, major regional operations are reviewed on a regularly scheduled basis to identify areas of strengths and weakness. This is a coordinated process, requiring all National Office functions (e.g. Examination, Collection, Criminal Investigation, etc.) to assess whether the critical

success factors of each program are being met by each region. As a result of the concerns raised over the past year, regional business reviews will also address whether employees are in compliance with ethical and behavioral standards.

VII. CONCLUSION

IRS recognizes that the voluntary compliance system depends on taxpayers' confidence in IRS' integrity. Taxpayers must be able to assume that the people who are entrusted with the administration of the tax laws are acting in good faith and with the utmost honesty and integrity. Likewise, our employees must see this standard met by all senior managers and executives and know that it is the standard expected throughout the agency.

We believe that IRS has learned from the congressional oversight process and has listened to its own employees. As a result, we are making changes.

As noted, we do not believe that there are widespread abuses of authority. But, we have made mistakes and we have identified systemic weaknesses and areas that can and should be improved. We have looked at our policies, our procedures, and our training to see if there are voids that invite potential abuse. A strong Treasury Inspector General, an effective IRS Inspection Service, and a management cadre that is committed to maintaining the highest ethical standards are all necessary to ensure a sound tax administration system and secure the public's trust and respect.

We would appreciate any suggestions that you or others at Treasury, in the Congress, or in the tax community have that will improve our efforts. The Integrity Review Panel was formed to provide such an objective review of our actions. We believe these actions are comprehensive, but we know that ensuring our proper and ethical behavior is a job that is never finished. It takes continued oversight at all levels, by Inspection, by Treasury's Inspector General, by the courts, by Congress and by taxpayers. We welcome any and all suggestions for improvement.

APPENDIX A: RULES OF CONDUCT

Internal Revenue Service

These Rules Supplement the Minimum Standards of Conduct
Department of the Treasury

Acknowledgment of Receipt

I have received a copy of Document 7098, Rules of Conduct. I am aware that it is my obligation to familiarize myself with its contents.

Employee's Name *(Please Print)*

Signature

Date

Form **8556** (Rev. 5-89)

Department of the Treasury – Internal Revenue Service

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Foreword

Public confidence in the integrity and dependability of the Service is crucial to the accomplishment of the IRS mission. It can be instilled and maintained only if every contact with the public reflects high ethical standards and our commitment to perform our work conscientiously, courteously, and effectively.

Our mission cannot be accomplished without a dedicated and well trained workforce. We recognize that the commitment of the workforce to the mission of the Service is largely dependent on the commitment of the Service toward its workforce. To foster a high degree of commitment, the IRS as an organization will be dedicated to improving and maintaining the quality of worklife. We will plan and implement human resource programs with the same sense of purpose and dedication that is demonstrated in administering tax programs.

These commitments, by and to our workforce, serve the public good by encouraging both dedication to quality performance and proper administration of our tax laws.

Chapter 1
Introduction

In accordance with the basic mission of the Internal Revenue Service to foster, to the fullest extent possible, voluntary compliance with all Revenue laws and regulations thereunder, the Service has issued the Rules of Conduct contained herein.

Confidence in the Service and faith in its dependability and integrity are factors having a vital impact on our ability to carry out our purpose. We can maintain the public confidence only to the extent that every one of our contacts with the public reflects the highest ethical and moral standards.

In addition to our daily assigned tasks, each of us has an important public relations role to play. Not only must we act with complete propriety, but we must be sure that none of our actions can be interpreted otherwise. Courtesy, fairness, and competence must mark all our relationships with the public. We must be reasonable and as ready to recognize the rights of the taxpayer as we are to protect the rights of the Government.

Achievement of these attitudes by all employees will build public esteem and make a major contribution to realizing maximum voluntary compliance.

In this very serious sense, these Rules of Conduct are promulgated. No desire exists to restrict our employees unduly or unnecessarily in their personal or official conduct. These rules have been adopted because of the contribution they make to strengthening public confidence in the Service.

These Rules of Conduct are designed to provide you with full notice of your responsibilities. Although they prescribe conduct required of all employees of the Internal Revenue Service they are not to be considered all inclusive. The absence of a specific rule covering an act which tends to discredit an employee or the Service, does not mean that such an act is condoned, is permissible, or would not call for, and result in, corrective action or adverse action, including separation when considered necessary, or in the interest of the Internal Revenue Service.

It is hoped that you will read these carefully and will abide by their spirit as well as their letter. Each of us can take pride in belonging to an organization which places such a high premium on ethical standards in official and personal conduct. We can also take pride in being part of an organization which contributes so much to the growth and strength of our nation.

Employees are required to familiarize themselves with the contents of these Rules of Conduct and are obligated to abide by them. Decisions in personnel matters involving disciplinary action will be based on the assumption that employees are familiar with the contents of this document.

Additional guidance regarding these Rules of Conduct may be obtained from your immediate supervisor. Guidance regarding the appropriate administrative and procedural requirements attendant to the Rules of Conduct are contained in Internal Revenue Manual 0735.1. The IRM is available for reference and use from either your immediate supervisor or your personnel office.

Chapter 2
Rules Concerning Employee Conduct

210 Scope and Introduction

211 Introduction

In order for the Service to serve the public interest, the Service and its employees must hold and maintain the confidence and esteem of the public we serve. To achieve this, employees are expected to conduct themselves in their official relations with the public and their fellow employees, in a courteous, businesslike, and diplomatic manner. Conduct which does not conform to these rules, or related statutes or regulations, which directly impacts on an employee's position, official duties, or the Service, may subject the employee to appropriate disciplinary action. The absence of a specific rule relating to an employee's action which may impact on their official duties or the Service, does not mean that such an act is either condoned or may not result in disciplinary action. These rules supplement the Department of the Treasury Minimum Standards of Conduct, 31 CFR Part 0, which also apply and which are attached.

212 Employee Obligations

Fundamental to the effectiveness of these rules and their administration is the obligation of each employee to become familiar with them, abide by them, and seek the necessary information from his or her supervisor regarding interpretation of the rules.

213 Deputy Agency Ethics Official

The Director, General Legal Services Division, Washington, DC, is the Service's "Deputy Agency Ethics Official (DAEO)." The duties of the DAEO include providing Service employees with counseling regarding interpretation or application of these rules of conduct, related statutes or regulations, and conflict of interest questions. Employees desiring to avail themselves of the DAEO's services regarding matters of immediate or future personal interest or involving prospective employment, should consult their Personnel Office or the appropriate collective bargaining agreement, as applicable.

214 Matters of Official Interest

214.1 Responding to Questions

When directed by Inspection or other competent authority, employees must testify, provide information, or respond to questions (under oath when required) concerning matters of official interest.

214.2 Testimony in State or Local Courts

Employees may not provide official records or testimony regarding their employment or official duties, to any person, officer, or court, state or local, without receiving express authority. Upon receipt of any subpoena, employees will promptly seek guidance from their supervisor.

214.3 Reporting Allegations or Information of Employee Misconduct

All employees must promptly report, directly to Inspection, any information or allegation coming to their attention which indicates that another employee may have committed a crime, including violation of any tax law. Employees must also promptly report other acts of employee misconduct such as tardiness and misuse of leave to their immediate supervisor. Reports of misconduct involving an Inspection employee will be made directly to the Director, Internal Security Division, or the Assistant Commissioner (Inspection).

214.4 Reporting Attempted Bribes

Attempts to bribe Service employees represent flagrant attacks on the integrity of the Service and its employees. To assist the Service in preserving the highest level of integrity, employees should be perceptive and alert to such overtures and take the following action when bribery overtures are received. Avoid any statement or implication that the employee will or will not accept the bribe. Attempt to hold the matter in abeyance. Report the matter directly to the nearest office of Inspection promptly or as soon as practical. Avoid unnecessary discussion of the matter with anyone.

214.5 False Statements

Employees will not intentionally make false or misleading verbal or written statements in matters of official interest.

214.6 Trade Secrets, Style of Work, etc.

Employees may not disclose, in any manner, information coming to their attention during the course of their employment or official duties which concerns or relates to the trade secrets, style of work, or device, of any person, firm, or entity except as provided by law.

214.7 Service Operations

Employees may not disclose, without authority, any provision of the IRM or internal management document designated per IRM 1272, "Official Use Only," or any information concerning an investigation by the Service. When questions arise regarding the propriety of releasing specific information, employees should consult their supervisor.

214.8 Tax Information—Confidentiality

Employees may not disclose any tax return or information pertinent to a tax return except as provided in the Internal Revenue Code. Civil and criminal sanctions for established violations are prescribed in the Internal Revenue Code and the Privacy Act of 1974. IRM 1272, Disclosure of Official Information Handbook, contains detailed guidance on the treatment of tax returns and return information.

215 Matters Concerning Official Activities

215.1 Loyalty and Strikes

Employees must adhere to their oath of office and appointment affidavit which includes provisions on loyalty and prohibitions against strikes.

215.2 Performance of Duty

Employees are expected to conscientiously perform their duties to the Government and the public; respond readily to the direction of their supervisors; and conduct their relations with fellow employees in a manner which does not cause dissension or discord.

215.3 Observance of Duty Hours

Employees must observe designated duty hours and be punctual in reporting for work and returning from lunch and breaks. Leave is to be used in accordance with its intended purpose and must be approved in advance whenever possible.

215.4 Firearms

Only a Criminal Investigator, GS-1811, may carry or have in his or her vehicle a firearm while conducting official business. However, even those employees are forbidden to unnecessarily display a firearm in public.

215.5 Appearance

Employees are expected to groom themselves in a manner fitting to the surroundings into which their work assignments take them.

216 Matters Concerning Personal Activities

216.1 Reserved

216.2 Personal Associations and Activities

Employees will be held responsible for any public discredit which may result from unjustified association with criminal or notoriously disreputable persons.

216.3 Use of Intoxicants

Employees may not use intoxicating beverages while on official duty or in a manner adversely affecting their work performance. Employees will also be held responsible for misconduct or public discredit stemming from their use of intoxicants while off duty.

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216.4 Gambling

Employees may not engage in any form of illegal gambling, nor gamble while on Government property or official time.

216.5 Lending or Borrowing

The lending or borrowing of money between Service employees, either frequently, or in substantial sums, is prohibited.

216.6 Indebtedness

Employees are expected to manage their private financial affairs and handle personal debts and obligations in a manner which will not cause embarrassment to the Service. Employees are expected to meet all just financial obligations, (i.e., those acknowledged by the employee or reduced to judgement by a court), especially those imposed by law, such as Federal, State, and local taxes.

216.7 Tax Obligations

Employees will timely and properly file all required tax returns.

216.8 Political Activity

The Hatch Act places specific restrictions on employee political activity. In addition, the Service imposes a further restriction: employees may not wear or display political badges or buttons when dealing with the public. Ignorance of the law does not excuse an employee's violation. The prescribed penalty for an established violation is immediate removal or suspension without pay for not less than 30 days. Specific guidance related to this activity may be obtained from Personnel.

216.9 Soliciting for Employee Organizations

Employees may not solicit from any organization or person outside the Service anything of value for any employee organization or employee welfare group.

217 Matters Concerning Government Property, etc.

217.1 Accountability for Money and Property

Employees may not use Government property of any kind including official documents and data for other than officially approved activities. Employees are expected to protect and conserve all Government property entrusted or issued to them; promptly report the loss of, or damage to, property entrusted to them; and return all Government property upon separation from the Service.

217.2 Use of Government Vehicles

Employees may not use, or authorize the use of, Government owned or leased vehicles for other than official purposes, nor may they transport any other person who is not on official business.

217.3 Influencing Legislation

Employees must not use Government time, money, or property to influence members of Congress to favor or oppose legislation.

217.4 Use of Pocket Commissions, Enforcement Badges, and ID Cards

Pocket Commissions, enforcement badges, and various identification cards issued to employees are to be used to establish identification or authority in connection with official duties. They may be used for personal identification purposes, e.g., for cashing checks or proof of employment; but may not be used to exert influence or obtain, either directly or indirectly, privileges, favors, or rewards.

217.5 Computers

Employees must make every effort to assure the security and prevent the unauthorized disclosure of protected information/data in the use of Government owned or leased computers. In addition, employees may not use any Service computer system for other than official purposes.

220 Outside Employment And Business Activity

221 General Rule

Employees of the Internal Revenue Service enjoy the maximum freedom possible to engage in outside employment or business activity, whether performed outside official hours of duty or while in an approved leave status, as long as consistent with the Service's functional responsibilities established by statute and regulation. Nevertheless, the Service's extremely sensitive mission and the attendant importance of public relations necessitate certain restrictions. Thus, as a general rule, employees may engage in any outside employment or business activity provided such activity is not prohibited. The approval or disapproval of requests for outside employment or business activities are dependent on, and subject to, individual considerations relevant in the judgment of the approving authority. Such considerations include an employee's position, grade, or geographical locale. Whether a salary is involved is usually not relevant to such determinations.

222 Consultants, Experts, etc.

These rules do not apply to consultants, experts, or other Special Government employees as defined in 18 USC 202.

223 Principles

1. The fundamental principles which govern the permissibility of outside employment are that:

   a. The outside activity does not place the employee in a situation where there may be a possible conflict, or the appearance of a conflict, between his or her private interests and his or her official duties and responsibilities.

   b. The outside activity (unless otherwise permitted) does not deal directly with any tax related matters.

e. The outside activity will not result in improper use of official information obtained in connection with the employee's Government duties or position.

d. The nature of employment or business activity or the hours to be devoted to such outside activity will not impair the employee's availability, capacity, or efficiency for the performance of his or her official duties.

e. The employee will not in any manner advertise or make it known that he or she works for the Service in order to generate or enhance business.

f. The employee will not do indirectly, i.e., in the name of, or through family, that which he or she is prohibited to do directly. "Family" means persons within the following degree of kinship to the employee or spouse: parents, grandparents, children, grandchildren, or siblings.

224 Prohibited Activities

224.1 Service Rule

Employees may not engage in any outside employment or business activity which gives rise to a real or apparent conflict of interest. Such incompatible activities include:

a. Legal Employment or Practice—Legal activities involving Federal, State, local tax matters, or any matter in which the United States is a party.

b. Appearance On Behalf of Taxpayers—Appearing on behalf of any taxpayer as an attorney, agent, or representative before any governmental agency, federal, state, or local—in an action involving a tax matter except upon written authorization of the Commissioner of the Internal Revenue Service.

c. Accounting—Engaging in accounting, the use, analysis, and interpretation of financial records when such activity involves tax matters.

d. Bookkeeping—Engaging in bookkeeping, the recording of transactions, record making phase of accounting, when such activity is directly related to a tax determination.

e. Preparation of Tax Returns for Compensation—Engaging in the preparation of tax returns for compensation, gift, or favor.

225 Restricted Activities

225.1 Service Rule

Employees must, prior to engaging in any outside employment or business activity, either with or without compensation, request and obtain written permission from the appropriate official. Subject to Section 224 such activities may be approved unless the activity would result in an actual or apparent conflict of interest. The following activities listed under Section 225.2 represent examples of areas of outside employment or business activity where an actual or apparent conflict of interest will most likely occur. As such, particular attention should be paid to this guidance by employees in seeking approval.

225.2 Miscellaneous Outside Activities

1. Speeches and Publications

   a. Public addresses and articles for publication, whether performed as an official duty or in a private capacity, which deal with official operations or policies of the Service or the Department of the Treasury, must be cleared in advance in accordance with current Service directives. (See IRM 1(19)40.) Specific written permission in advance is necessary if the author is to be identified as a Service employee.

   b. Where any such activity is performed as an official duty, employees may not accept a fee, salary, honorarium, or other compensation from any source other than the Federal Government. Acceptance of reimbursement for travel, lodging, meals, or nominal courtesies is governed by Section 234.1.

   c. Where any such activity is performed in a private capacity, employees may accept a fee, salary, or other compensation which is reasonable and in accordance with these rules.

2. Legal Employment or Practice

   Outside employment and legal activities may be approved provided that employees may not advertise nor be affiliated with a firm and the activity is not remotely involved with tax law. For example, adoptions, title searches, law clerkships, and all legal services to immediate family are not considered to be involved with tax law.

3. Bookkeeping and Accounting

   a. Employees may only engage in the full range of bookkeeping activities, (the recording of transactions, record making phase of accounting), provided that such activity does not involve or influence a tax determination.

   b. Employees may be authorized to engage in bookkeeping and accounting activities which involve or influence a tax determination only in the following situations:
      1. Where an employee, whose official duties could not influence a tax determination or collection, wishes to keep the books for a firm owned or run by his or her immediate family and the prospects are remote for a conflict of interest;
      2. Where the activity is for a civic, religious, educational or charitable nonprofit organization and is unpaid; and
      3. Where the employee has been given permission to otherwise engage in a business with a spouse.

4. Gambling Casinos and Establishments

   Employees may engage in employment at a parimutual betting establishment. However, generally, employees may not work at casinos or gambling establishments.

5. Financial Counseling/Planning Service

Generally, employees may engage in the sale or promotion of services in fields of finance, such as financial investment counseling/planning services or similar related activities, as long as they are not directly or indirectly related to tax matters.

6. Holding Public Office

To be permissible under the Hatch Act, ". . . political activity must be of a strictly local character completely unrelated to issues and candidates that are identified with national and state political parties." (Specific guidance related to this activity may be obtained from Personnel.)

7. Teaching/Instructing of Tax Related Courses

Qualified employees may engage in part-time teaching/instructing of courses in taxation at institutes of good standing in the community, including practitioner institutes. Proper authorization in accordance with established procedures must be obtained in advance.

226 Applying for Permission

Except as provided in Section 228, employees requesting permission to engage in an activity must submit three completed copies of Form 7995, Outside Employment or Business Request, to their immediate supervisor; employees requesting an exception to the prohibitions of Section 224 will submit four completed copies of Form 7995. Employees will likewise be expected to provide any supplementary information requested by their supervisor, reviewers, or approving official to facilitate review of their requests.

227 Appeals

Employees who feel that they have grievances as a result of denials of permission to engage in outside employment or business activity, may appeal the disapproval decisions pursuant to IRM 0771.1, Grievance Handbook, or a negotiated grievance procedure, as applicable.

228 Seasonals

Seasonal employees may not engage in any activity described in Section 224. While in non-duty status, such employees may accept/engage in outside employment without obtaining prior written permission that is otherwise required. Upon return to duty status, the employee must submit a written request, Form 7995, if the outside employment activity continues.

229 Activities Which Do Not Require Prior Approval

229.1 General

Written permission is not required to engage in outside activities which are not considered to be employment or business. Although every specific activity is not covered, the general categories discussed below are furnished as basic guidelines.

229.2 General Examples

1. Membership and services (including holding of office) in civic, scout, religious, educational, fraternal, social, community, veteran, and charitable organizations, including corporations, where such office or services do not entail the management of a business type activity such as the direct operation of a commercial type clubhouse.
2. Membership and services (including holding of office) in Federal employee organizations and recognized Federal employee unions. However, employees in certain positions are prohibited from holding office in recognized employee organizations. If there is any doubt as to the propriety of accepting an office, the matter should be promptly referred to the servicing Personnel Office for decision.
3. Membership and services (including holding office) in local offices of legally authorized credit unions whether or not they are run by and for Service personnel. This includes paid bookkeeping work performed by the treasurer as well as part-time clerical or teller services.
4. Membership in investment club enterprises.
5. Services as a Notary Public.
6. Unpaid bookkeeping, preparation of tax returns and other forms required by the Service, and the maintenance of other records for civic, religious, educational, and charitable nonprofit organizations which are exempt from Federal income tax.
7. Sales of articles to coworkers, friends, relatives, and neighbors not involving sales to, and solicitation of, the general public. Such sales must not be solicited for or transacted during office hours or in space occupied by Treasury or Service offices.
8. Rental of personally owned property, real or personal. However, employees must seek written approval pursuant to Section 226 of this document if the extent or scope of such rental activities could lead others reasonably to conclude that the employee is involved in the operation of a commercial business venture.
9. Minor services and odd jobs for friends, relatives, or neighbors.
10. Temporary (30 days or less) emergency assistance in a family enterprise in case of an emergency, such as the death or serious illness of, or incapacitating accident to, a member of the family engaged in such business. This exception is to ensure that the employee will not, by administrative restrictions, be denied the right immediately to assume a share of the responsibilities in the family emergencies. Written permission is required if the need for such assistance continues beyond 30 calendar days or occurs more often than once in a calendar year.
11. Participation in fundraising drives as chairperson or in other capacities, subject to these conditions:

a. The fundraising drive must not be for any purpose or cause likely to reflect discredit or embarrassment on the Service or be in conflict with the interest of the Federal Government.

b. If the employee is to serve as chairperson of a fundraising drive, the drive must be under the auspices of nonprofit civic, religious, charitable, educational, fraternal, veteran, professional, scout, or social service organizations; or a Federal Government section of a drive.

12. Furnishing advice and assistance in the preparation of tax returns where there is no fee or other consideration.

13. Being custodian of one's child's property, or acting as administrator, executor, guardian, or attorney-in-fact for a relative or friend provided the duties do not entail operation of a business. Such services are not considered legal employment or practice. Acceptance of an executor's or trustee's fee is permissible if no part of the fee is specifically identified as payment for tax return preparation.

230 Conflicts of Interest

231 General Provisions

A conflict of interest is a situation in which a Service employee's private interest, usually of a financial or economic nature, conflicts or raises a reasonable question of conflict with the employee's public duties and responsibilities. A financial interest may be one involving the employee, the employee's spouse, minor child, partner, or organization in which the employee is serving as an officer, director, trustee, partner or employee, or any person or organization with whom the employee is negotiating or has any arrangements concerning prospective employment. Employees must be alert and avoid any situation which creates a conflict of interest or creates a reasonable question of a conflict of interest with their official duties. Penalties prescribed by statute for established violations include both fine and/or imprisonment.

232 Self-Disqualification From Certain Assignments

An employee having been assigned any duty, responsibility, case, or other work assignment which might create a real or apparent conflict of interest must promptly bring the specific facts and circumstances to the attention of the employee's immediate supervisor, who will provide appropriate instructions. Likewise, employees must notify their immediate supervisors during the performance of duties already assigned in the event that changed personal circumstances (such as newly acquired interests, associations, or relationships) might create a real or apparent conflict of interest.

233 Purchase of Government Property

Employees may not directly or indirectly bid or purchase, at any sale of Government property, property under the direction, or incident to the functions of the Service. Employees may purchase any other Government property provided that they identify themselves to the disposing agency as an employee of the Service and are governed by the disposing agency's rules, if any, concerning sales to Government employees.

234 Gifts and Gratuities

234.1 From Sources Outside of the Service

1. Service Rule

   a. Except as provided below in paragraphs (2)(a) through (d) an employee may not solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment, or loan; opportunity to purchase an item at cost, discount, or bargain price, unless such opportunity is available to the general public; or other thing of monetary value from a person or entity which:

      1. Has, or is seeking to obtain, contractual or other business or financial relations with the Treasury Department;

      2. Conducts operations or activities that are regulated by the Treasury Department; or

      3. Has interests that may be substantially affected by the performance or nonperformance of the employee's official duty.

   b. Where circumstances do not permit rejection (for example, a gift received by mail), the employee will consult with his or her supervisor.

2. Exceptions and Guidelines

   a. Employees may accept gifts, entertainment, and food when the circumstances make it clear that obvious family or personal relationships are the exclusive factors.

   b. Employees, as a general rule, must not accept food and refreshments from taxpayers. However, the Service recognizes that circumstances can arise where its employees would be placed in awkward situations in refusing to accept food and refreshments. Accordingly, where circumstances would make it uncomfortable to refuse, acceptance of food and refreshments of nominal value on infrequent occasions, is permitted when such action occurs in the ordinary course of a luncheon or dinner meeting or other meeting where an employee may properly be in attendance.

   c. Employees in attendance in their official capacity, either as active participant or IRS/Treasury representative, at organized functions which have been considered appropriate and important ones to attend because of the recognized benefits of such attendance to Treasury operations, may accept food and refreshments of nominal value on infrequent occasions.

   d. Employees may accept unsolicited advertising or promotional material, such as pens, pencils, note pads, calendars, and other items of nominal intrinsic value.

3. Employees must exercise sound judgment to comply with the intent of this rule.

234.2 From Other Employees

Employees may not solicit a contribution from another employee for a gift to a person in a superior official position, nor make a donation for a gift to a person in a superior official position, nor may such superiors accept a gift from an employee receiving less pay than themselves. Employees may contribute to, or donate for, a voluntary gift of a nominal value for another employee made on a special occasion, such as marriage, illness, or retirement.

234.3 From Foreign Governments

The Constitution prohibits employees from accepting from foreign governments, except with the consent of Congress, presents, emoluments, offices, or titles. The Congress has given its consent in 5 USC 7342 to the acceptance of certain specified gifts and decorations. Minimum value is periodically redefined by the Administrator of General Services. It is currently defined as having a maximum retail value in the United States of $165 or less at the time of acceptance. If an employee accepts a tangible gift of more than minimal value, such a gift is deemed to have been accepted on behalf of the United States and, upon its acceptance by the employee, becomes the property of the United States. The employee must transfer such a gift to the Service within 60 days for appropriate disposal by the agency.

235 Relations With the Public

235.1 Recommending Attorneys, Accountants

Employees may not recommend, refer, or suggest, specifically or by implication, any attorney or accountant or firm of attorneys or accountants to a taxpayer in connection with any official business which involves or may involve the Service.

235.2 Transactions With Taxpayers and Their Representatives

Employees may not engage in any business or financial transaction with a taxpayer or their representative which may reasonably be construed as influencing or improperly relating to the past, present, or future performance of the employee's official duties.

235.3 Payment or Reimbursement of Travel and Subsistence Expenses by State, Counties, or Municipalities, or by Certain Tax-Exempt Organizations

1. An employee who has been authorized as an official duty to attend or participate in a tax forum or continuing professional education program, may accept payment or reimbursement of reasonable expenses for travel, lodging, and meals from any State, county, or municipal agency, or from an organization which has been determined to be tax exempt under section 501(c)(3) of title 26, United States Code, provided:

   a. Written approval is obtained in advance from a duly authorized approving official;

b. Reimbursement or payment is limited to the actual expenses of round trip transportation not to exceed the cost of coach airfare plus necessary ground transportation, the cost of a standard single room at the forum or program site, and reasonable meal costs; and

c. A written report of all expenses reimbursed or payments made is submitted to the approving official and maintained for a period of four years.

2. Pursuant to Delegation Order No. 189, (as revised), the appropriate approving officials for employees of the Service are the Deputy Commissioner for all Associate, Assistant and Regional Commissioners, and the Assistant Commissioners and Regional Commissioners for all employees under their own supervision. For employees of the Office of Chief Counsel, the appropriate approving officials are the Chief Counsel for all Regional Counsel and Deputies Chief Counsel, and the Regional Counsel and the Deputies Chief Counsel for all employees under their own supervision.

240 Statements of Employment and Financial Interest

Executive Order 11222, the Ethics in Government Act, and 5 CFR 735 require the filing of certain statements of employment and financial interest by certain designated employees. Those employees required to file such statements will be appropriately contacted by their personnel offices.

APPENDIX B: IRS ACTION PLAN

DEC 2 2 1989

ACTION PLAN: CONGRESSIONAL HEARINGS ON IRS INTEGRITY

ACTION		RESPONSIBLE OFFICE*	COMPLETION DATE
I.	Management Issues		
	A. establish Inspection hotline and communicate to all employees this new avenue for anonymous reporting of allegations to the National office,	I, IG	Completed installation publicity issued Action Completed
	B. review and/or ask Treasury Inspector General to review the entire Inspection program, including adequacy of grade structure/skill levels, staffing, training, etc.,	I, IG	12/31/89
	C. request that the Treasury Inspector General conduct ongoing quality reviews of various Inspection program activities on a systematic basis and cooperate fully with Treasury during the reviews,	C, I, IG	Formal request to be sent 10/27/89 IRS Action Completed
	D. re-examine concerns raised during the hearings over Inspection's ability to police IRS executives, CID officials and itself, and in this context, recommend to the Commissioner appropriate alternatives for clarifying the role of the Treasury IG, in investigating Inspection and IRS senior employees. Meet with the Treasury IG to discuss possible workload staffing transfers. Meet with the Deputy Secretary to discuss recommendations and implement agreed upon modifications,	I, Deputy Commissioner (Operations), Deputy Commissioner (Planning and Resources)	11/30/89 Awaiting Action in Treasury
	E. study the organizational status of the Assistant Commissioner (Inspection) and make adjustments as appropriate to ensure independence and autonomy within the IRS,	Planning, Finance and Reserach	12/31/89

* The IG has been asked to review the items in this plan where that office is listed in the "Responsible Office" column.

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	ACTION	RESPONSIBLE OFFICE	COMPLETION DATE
I.	Management Issues		
	F. incorporate in our ongoing Ethics Initiative, issues that surfaced during the course of the Subcommittee's investigation, such as what more can be done to create an agency environment that allows individuals to come forward with allegations without fear of reprisal,	PPR	3/31/90
	G. review the responsibilities of the District Director in oversighting Criminal Investigation activities,	CI, Deputy Commissioner (Operations)	11/30/89 Extended to 12/14/89
	H. review policies and practices with respect to hiring of family members, especially spouses, of executives to ensure that they are clear, unambiguous and within statutory and regulatory guidelines,	HR, CC:GLS	11/30/89
	I. review practice and determine whether a policy is required to address the need for rotation of managers in functional areas among posts of duty and between field and headquarters offices.	HR, Functional ACs	11/30/89
	J. review agency grievance procedure to make the process more effective, revise as appropriate,	HR, CC:GLS	11/30/89
	K. review and adjust as necessary procedures dealing with testimony before Congressional committees and investigators of those committees to ensure full cooperation to the maximum extent allowed by law, and	C:L, EX:D, CC:D CC:GLS	12/31/89
	L. issue guidance to include in Business Reviews appropriate oversight reviews of field efforts to assure that employees are in compliance with ethical and behavioral standards.	PPR	10/31/89 Extended to 12/31/89

	ACTION	RESPONSIBLE OFFICE	COMPLETION DATE
II.	Inspection		
A.	implement the new management information system for Internal Security,	I, IG	3/31/90
B.	review procedures and criteria for initiation of special inquiry and conduct cases, and make appropriate changes,	I, IG	11/30/89 COMPLETED
C.	continue discussions with the Treasury Inspector General and reach agreements concerning the investigative relationship between that office and IRS Inspection,	I, IG	11/30/89
D.	increase awareness of proper case assignment practices to ensure that impartial investigations are conducted,	I, IG	11/30/89 COMPLETED
E.	review and make appropriate changes to administrative case procedures (including referral procedures) to ensure investigative actions are properly documented and thorough reports prepared.	I, IG	11/30/89 COMPLETED
F.	develop methods for providing more complete information to all levels of the IRS as to the role of Inspection, Inspection's activities and its achievements. Expand distribution of Inspection Digest, and	I, IG	11/30/89 COMPLETED
G.	to strengthen Inspection procedures, review proposed changes to CI operational instructions and procedures to ensure consistency, as necessary, with corresponding Inspection procedures, and revise Inspection procedures as appropriate.	I, CI, CC:CT, IG	03/31/90

APPENDIX C: MEMBERS OF THE INTEGRITY REVIEW PANEL

MEMBERS OF THE COMMISSIONER'S INTEGRITY REVIEW PANEL

M. Carr Ferguson
Davis, Polk and Wardwell

Jim Holden
Steptoe and Johnson

John Martin
Inspector General
Environmental Protection Agency

Paige Marvel
Venable, Baetjer and Howard

Chad Muller
Matthews and Branscomb

Samuel Sterrett
Sterrett and Durney

Don Summa
Graduate School of Management
Rutgers University

	ACTION	RESPONSIBLE OFFICE	COMPLETION DATE
III.	Criminal Investigation Procedures		
	A. convene a study group to review and modify undercover guidelines,	CI, CC:CT, I	11/30/89-interim 2/28/90-final Extended to 3/15/90
	B. clarify guidelines on permissible surveillance activities under information gathering projects,	CI, CC:CT, I	11/30/89
	C. review and adjust as necessary approval levels and controls over the Criminal Investigation administrative case process including approval levels for case initiations and final reports,	CI	1/31/90 Extended to 2/9/90
	D. strengthen procedures concerning the review and approval of confidential expenditures for activities involving the Chief, CID,	CI, I	11/30/89 COMPLETED
	E. develop guidelines for reporting unique or unusual tax administration issues, such as the Los Angeles lockbox matter, to upper management,	CI	11/30/89
	F. clarify procedures concerning the retention and disposal of documents obtained during the investigative and litigation case process,	CI, CC:CT, HR	11/30/89 Extended to 12/15/89
	G. develop additional guidelines on self-disqualification/recusation from cases involving conflict of interest or the appearances of conflict of interest,	CI, EX, CO	11/30/89 Extended to 12/20/89
	H. review procedures concerning the use of diaries and chronological worksheets by special agents, and revise as necessary	CI, CC:CT	11/30/89 COMPLETED

	ACTION	RESPONSIBLE OFFICE	COMPLETION DATE
III.	Criminal Investigation Procedures		
	I. develop IRM guidelines on managerial participation in field investigative activities,	CI	11/30/89 Extended to 12/14/89
	J. develop CPE training unit on ethical issues which arise out of enforcement activities,	CI	12/30/89 Extended to 1/8/90
	K. develop supplemental IRM guidelines on conduct and ethical issues for special agents and CID management, and	CI	12/30/89 Extended to 1/11/90
	L. provide consistency between instructional material used for training special agents and IRM 9781, Handbook for Special Agents.	CI, CC:CT	11/30/89 Extended to 12/8/89

ACTION	RESPONSIBLE OFFICE	COMPLETION DATE
IV. General Issues		
A. review allegations of misconduct and additional information made public during the course of the hearings, and refer specific allegations to Inspection,	Working Group	Completed 9/15/89
B. request that the Subcommittee provide us with any additional information they have and also any new allegations that may have been brought to their attention, and	C (Morin)	8/7/89 request made followed up 9/8/89
conduct review as in (a) above,	Working Group	To be determined
C. based on analysis of available information, determine if Inspection cases need to be reopened or new cases initiated		
1 - source - hearing transcripts, tapes, etc.	I, IG	9/30/90 completed
2 - source - new information provided by Subcommittee.	I, IG	To be established when information received
D. refer allegations to the Treasury Inspector General as required, conduct Inspection investigations and issue findings, and management take appropriate administrative actions as warranted, and		
1 - source - hearing transcripts, tapes, etc.	I, IG	monthly tracking
2 - source - new information provided by subcommittee	I, IG Appropriate function	to be established when information received
E. identify additional management issues that surface during these reviews for follow-up action		
1 - source - hearing transcript, tapes, etc.	Working Group	9/08/89 completed
2 - source - new information provided by subcommittee	Working Group	To be established when information is received

	ACTION	RESPONSIBLE OFFICE	COMPLETION DATE
V.	Commitments to Subcommittee		
A.	review and modify as necessary IRS policy and procedures regarding Los Angeles lockbox situation,	CC:CT, CI	10/31/89
B.	respond to Subcommittee questions concerning the authorization, development and distribution of the Disclosure Alert,	C:L, EX	10/3/89 completed
C.	meet with Subcommittee investigators regarding the destruction of documents issue to determine what information was destroyed,	I, IG	Initial meeting held. Ongoing follow-up.
D.	review and modify as necessary Rules of Conduct concerning investment policies for IRS employees as they relate to investments in entities under IRS investigation and joint investments involving IRS managers and their superiors and subordinates,	HR	10/31/89 Extended to 12/15/89
E.	determine if it would be feasible to develop a list of sanctions for violations of the Rules of Conduct, and	HR	12/31/89
F.	meet with Congressman Alexander at his request for IRS participation in the Mena, Arkansas case		
	1 - letter to Alexander requesting meeting	C (Morin) CI	8/15/89
	2-additional information to be submitted for record	CC:D	followed up 9/30/89 Completed 10/03/89
	3 - follow up as appropriate.	CI	Ongoing

	ACTION	RESPONSIBLE OFFICE	COMPLETION DATE
VI.	Communications Strategy		
	External Communications		
A.	provide periodic status reports to the Department of the Treasury on our progress in accomplishing the actions outlined above,	C, C:L	begin 10/15/89 status reports due from functions to C:L the 10th of each month
B.	meet with members of the Subcommittee on Commerce, Consumer and Monetary Affairs to discuss our actions,	C, C:L	
	1 - schedule meeting of Commissioner with Subcommittee Chairman and ranking minority member to discuss IRS plans and actions,	C (Morin)	Completed 9/21/89
C.	be responsive to all media requests for information on IRS actions that have been undertaken and use media briefings, editorial boards and interviews as a means of communicating our actions,	C:PA	ongoing
D.	during contacts with Congressional offices, especially the tax writing, oversight, and appropriations committees, communicate IRS actions taken as a result of the Congressional investigation,	C (Morin)	ongoing
E.	share information on IRS plans with and solicit advice from liaison groups such as the Commissioner's Advisory Group, ABA, AICPA, NAEA, NATA, NSPA, TEI, and other government offices such as GAO and the Office of Public Integrity, and,	C:ES	ongoing
F.	work with the National Treasury Employee's Union in the actions we plan to undertake.	C, HR	10/15/89

	ACTION	RESPONSIBLE OFFICE	COMPLETION DATE
	Internal Communications		
G.	distribute the action plan and other materials to IRS executives to keep them appriesd of our actions, and utilize executive conferences and office visits as vehicles to solicit their support and ideas for accomplishing our goals,		
	1 - Discuss Barnard Action Plan and Ethics Initiative at Executive Conference	C (Morin) PFR	completed
	2 - Provide status report on Barnard Action Plan and Ethics Initiative at Joint Conference	C (Morin) PFR	10/24/89 COMPLETED
H.	meet with IRS employees in the offices and organizations most impacted by the Subcommittee's investigation,		
	1 - Midwest Region visit	C/SD	Completed
	2 - Western Region visit	C/SD	Completed
I.	through various other means including employee newsletters, keep all employees appraised of our actions and solicit their ideas on areas for further improvements.	HR, C:PA, C:L	ongoing

APPENDIX D: IRS/TREASURY INSPECTOR GENERAL RESPONSIBILITIES AREAS FOR INSPECTOR GENERAL QUALITY REVIEWS

DEPARTMENT OF THE TREASURY
WASHINGTON

ACTION

Action Deadline: November 16
November 8, 1989

MEMORANDUM FOR DEPUTY SECRETARY ROBSON

FROM: Fred T. Goldberg, Jr.
Commissioner of Internal Revenue Service

Robert P. Cesca
Acting Inspector General

SUBJECT: Role of the Internal Revenue Service Inspection/Treasury's Office of Inspector General

ACTION FORCING EVENT:

In order to maintain the high standards of conduct and integrity properly expected of the Nation's tax collector, the Office of Inspector General must be adequately funded and staffed to: (1) investigate allegations of wrongdoing by the Internal Revenue Service (IRS) executives and employees in situations where the independence of IRS Inspection could be questioned, and (2) provide effective and ongoing oversight of the Inspection function.

RECOMMENDATION:

For FY 1990, transfer 21 FTE's and $1.9 million from the IRS appropriations to the OIG appropriation. Accordingly, the FY 1991 OIG appropriation base would increase by 21 FTE's and $1.9 million with a corresponding decrease in the IRS base.

Agree ~~Agree~~ Disagree _____ Let's Discuss

BACKGROUND/ANALYSIS:

A central issue in the recent investigation and hearings conducted by the Subcommittee on Commerce, Consumer and Monetary Affairs was whether IRS's Inspection function could effectively investigate allegations of misconduct involving IRS executives. Based on the Subcommittee's efforts, we have reviewed the organizational placement of various Inspection activities and the relationship between Inspection and the Office of Inspector General.

subject to working out of legal & other issues

Emily L. Walker

Accordingly, the IRS and OIG jointly propose a base transfer of 21 FTE's and $1.9 million from the IRS to the Office of Inspector General for the following purposes:

(1) The investigation of all allegations of misconduct concerning the Commissioner, the Senior Deputy Commissioner and Inspection employees;

(2) The investigation of all other allegations of misconduct where the independence of Inspection may be questioned. In this regard, all allegations of misconduct involving IRS executives and managers (Grade 15 and above), and all other allegations involving significant or notorious matters, will be referred to the Office of Inspector General. We anticipate that staff employed by the Office of Inspector General will conduct most investigations arising out of such referrals;

(3) The effective oversight of Inspection operations. In this regard, the IRS has already recommended a number of program reviews for inclusion in the Office of Inspector General's Quality Assurance Plan; and

(4) The conduct of special reviews of IRS operations deemed appropriate by the Office of Inspector General.

The level of resources provided by IRS to the Office of Inspector General will be used for the purposes noted above in a timely and expeditious manner.

The Inspector General Act Amendments of 1988 authorize the Office of Inspector General to perform the foregoing activities. The current level of OIG appropriations is insufficient to provide the necessary services to IRS. Title 31 U.S.C. 1531 authorizes the Secretary to transfer appropriations within an agency to an organizational unit which has been assigned new functions and activities. Accordingly, we recommend that the FTE and funds be transferred now to permit the OIG to exercise fully its statutory duties.

Internal Revenue Service
memorandum

date: OCT 27 1989

to: Acting Inspector General Z

from: Commissioner

subject: Request for Quality Assurance Reviews of Inspection

As we have discussed, I feel an essential element to maintaining the public's confidence in the Service's integrity is a strong and viable oversight program of the Inspection function. In keeping with this commitment I would like to take this opportunity to suggest several areas that you may wish to consider in formulating your quality assurance plans of Inspection activities. These areas are:

- Financial Statement Audits: Will Internal Audit's strategy for auditing the Service's financial statements fulfill the requirements of the General Accounting Office's (GAO's) "Government Auditing Standards";
- Design and Development of Inspection's Management Information Systems: Will the new management information systems for Internal Audit and Internal Security provide accurate and reliable data to effectively manage Inspection activities;
- Quality of Investigations: Were the recommendations from a recently completed Inspection Quality Improvement Project thoroughly developed and, if implemented, will they improve the quality and timeliness of Internal Security's misconduct investigations;
- Centralization of Inspection's Background Program: Is the Centralized Background Program operating efficiently and effectively;
- Investigative Equipment: Do controls over Internal Security's investigative equipment ensure access to the equipment and its usage is limited to authorized individuals, and accountability for the custody of the equipment is maintained;

Acting Inspector General %

- o National Audit Procedures: Are national audits coordinated properly and do reporting and management response procedures meet GAO's "Government Auditing Standards"; and

- o Internal Audit's Budget, Tracking and Resource Allocation System (BTRAS): Is the system used by Internal Audit to identify resource needs and allocate resources adequate.

I look forward to hearing from you when you have finalized your quality assurance plans.

APPENDIX E: IRS HOTLINE

Internal Revenue Service
memorandum

date: OCT 24 1989

to: All Internal Revenue Employees

from: Commissioner

subject: IRS Inspection Hotline

On July 27, 1989, when I appeared before the Subcommittee on Commerce, Consumer, and Monetary Affairs House Government Operations Committee, I testified that the Inspection Service was implementing a "Hotline" that would permit employees to report allegations of misconduct directly to Inspection headquarters.

The IRS Inspection Hotline is now in place and available for use by all IRS employees.

There are several ways to report fraud, waste and abuse. You may call or visit your local Inspector, call or write your local Regional Inspector or visit that office if you are in the regional headquarters city. You may write directly to the Assistant Commissioner (Inspection) at IRS, Inspection, Post Office Box 589, Benjamin Franklin Station, Washington, DC 20044-0589 or you may call the IRS Inspection Hotline located in Washington, DC at 800-366-4484 as well as the Treasury Inspector General's Hotline 800-826-0407.

In any instance, when reporting fraud, waste and abuse, you may request that your identity remain confidential or you may desire to remain anonymous.

Mr. ROYBAL. All right. Mr. Skeen?

Mr. SKEEN. I have no further questions, Mr. Chairman.

MORALE

Mr. ROYBAL. All right. Then I would like to go just very briefly into your personnel practice as a whole. I base this on, again, complaints that have been made to me. One of my offices is located in Los Angeles, and I find that IRS is in the same building. And we have contact with most of the people in that agency at one time or another. It seems that the morale is not very good. Are you aware of that?

Mr. GOLDBERG. Mr. Chairman, I think that with all due respect to anybody else sitting in this room, I think that the Internal Revenue Services is the finest agency in the Federal Government. But I believe that we have been living under a hiring freeze for 18 months. We have not been providing our employees the training they deserve and they need. And I think that is bound to have an impact on morale.

Mr. ROYBAL. All right. Now what about our——

Mr. GOLDBERG. Our special agents in Los Angeles are paid $15-20,000 less than rookie L.A. Police Department employees. And I think that sure, there are some morale issues out there. And we are very concerned about it. I think that this budget, and what I have seen since the President's budget was released, is a very striking turnaround in morale in the sense that the folks out there think there is hope. So I think we are seeing a turnaround. But I am concerned about it.

EQUAL EMPLOYMENT OPPORTUNITY PRACTICES

Mr. ROYBAL. All right. I am glad to hear that, because the attitude of part of the hierarchy can very well trickle down and be very positive, or have a positive affect on the rest of the personnel. One of the things that I hear is that there is lack of opportunity; no upper mobility; that women, for example, are held down. That is not the word that they used. They said, "Women are not permitted to advance according to their capabilities." That is what they said to me.

Mr. GOLDBERG. Mr. Chairman, if I can comment on that. I believe that the Federal Government is a matter of right and wrong. It has to be the leader in the area of equal opportunity. But I think beyond that, it is just plain old- fashioned good business for us to do it.

Mr. ROYBAL. All right.

Mr. GOLDBERG. We have done—let me, if I can just tick off a number of things that we have done in this area that I believe reflect where this agency is going. If you look at the statistics, we do a pretty darned good job at the entry level. The real issue is the upward mobility. And if you look around at what we are doing, we are in the stage of finalizing a strategic initiative focusing specifically on the issue of equal employment opportunity for all of our employees.

We have placed on the performance review board, which is the group responsible for dealing with compensation of all of our ex-

ecutives, a black female Assistant to the Commission for equal employment opportunity, because we are going to put our money where our mouth is. And if performance in that area matters, then we are going to pay attention to it. She is there because she is good.

Mr. ROYBAL. All right. What are you doing about Hispanics?

Mr. GOLDBERG. We have——

Mr. ROYBAL. Are there Hispanics in the hierarchy of the service?

Mr. GOLDBERG. Let me run through that. Well, let me take Los Angeles. Right now, the chiefs of our examination function and our collection function, which are two old-line big, big—that is the hardest nut to crack when you are dealing with equal employment opportunity. Both of those chiefs are women now.

With respect to Hispanics, two of the largest districts we have in the country are Houston and Laguna Niguel. Arturo Jacobs, a Hispanic is in Houston. And I had the privilege of appointing Jesse Cota as the first District Director in my job. And he is a Hispanic, and is running Laguna Niguel. I would say in terms of looking at the Hispanic population at large, we are not doing as well at the entry level there.

Mr. ROYBAL. What about your own staff here in Washington, D.C.? Is there an appropriate percentage of women and other minorities on the staff?

Mr. GOLDBERG. I had the pleasure of appointing the first woman Assistant Commissioner in 10 years. The Assistant Commissioner is one of the top 30 people in this agency.

Mr. ROYBAL. Would you say then——

Mr. GOLDBERG. My administrative——

Mr. ROYBAL [continuing]. That the staff distribution is fair?

Mr. GOLDBERG. No. I think we have a long way to go.

Mr. ROYBAL. All right.

Mr. GOLDBERG. But I think we are taking real world steps. And I think that that reflects an agency-wide commitment to where we have got to go.

Mr. ROYBAL. Now that I believe to be the fact. And this is what I was referring to with regard to complaints I get in my own area. Nothing is perfect. And no matter who does a job, it is not going to be 100 percent. But we can strive for that. And as long as we are striving and doing the very best we can to get these things done, I think it is satisfactory.

Sometimes we think we are doing the best we can and we are not. And I think we have to every once in a while step back and look at our own actions and re-examine our own situation and be critical about oneself. And then go forward again to attack the problem. Sometimes I think that is what some of these people are trying to tell me. There are people in place that are very insensitive to the problems of those under them. This is why training is important, and all these other things that are important in what you are doing.

I am learning about your attitude, and I hope that that is the attitude of everybody else on your staff and others.

Mr. GOLDBERG. We feel strongly about that. We clearly have a long way to go, but again I am proud of the progress we are making. And if you do not mind, I would like to share for you and

for the record some of the steps we have under way, because I think we are doing a lot in this area.

Mr. ROYBAL. I would appreciate that if you would put that in the record. And then we will go back to it next year and see how well they do. I expect to be here next year. Anything else, Mr. Skeen?

Mr. SKEEN. Mr. Chairman, I think we have just about pasted up all sides of the page here.

[The information follows:]

STEPS IRS IS TAKING TO ENSURE EQUAL EMPLOYMENT OPPORTUNITY

Mr. Roybal: Please provide the Subcommittee with a list of the steps IRS is taking to ensure equal employment opportunity within the Service.

Mr. Goldberg: The Service's blueprint for new initiatives in its equal employment opportunity program is encompassed in its Strategic Initiative ERR-16 Report, entitled A Design for Organizational Diversity, the final version of which will be issued by June 1, 1990. Strategic Initiative ERR-16 was commissioned in 1988 with the charge of assessing current equal opportunity conditions within the Service and to recommend courses of action to overcome problems that were identified. A specific focus was how to adequately plan for and manage an increasingly diverse workforce and use that diversity to build a more effective organization. The ERR-16 taskforce was comprised of a geographic and racially diverse group of male and female IRS managers and executives. Their final report is the result of a comprehensive, indepth study of the Service's equal opportunity program, drawing upon both internal and private sector resources for the research which forms the basis of its recommendations.

ERR-16 strategy addresses several major objectives with supporting recommendations to strengthen the Service's EEO program. Some of the report's recommendations have already been implemented or are in process. Areas of emphasis are as follows:

Management Accountability - In 1989, Equal Employment Opportunity (EEO) was designated as a separate critical success factor in the PMRS and SES appraisal process. The appraisal standards are designed to provide the specificity which will promote fair and accurate evaluations of actions and give the manager a better understanding of what is expected in the way of EEO performance. Additionally, implementation of ERR-16 recommendations is included as a primary short

and long range objective in the Service's Strategic Business Plan. The Service stresses that the responsibility for a successful EEO program rests with management, rather than being a function solely for EEO professionals.

Educational Efforts - An on-going training program addressing the management of a racially and ethnically diverse workforce is being refined and will be incorporated into mandatory management training. The Service will continue its varied training efforts to orient employees to EEO concepts, with a particular emphasis on an understanding and prevention of sexual harassment. The content and availability of training for EEO staff is also undergoing review and development.

Ensuring Effective Recruitment, Development, and Retention -
The Service will continue its strong recruitment relationship with Historically Black Colleges and Universities, while expanding its recruitment efforts to target other educational institutions with significant minority populations. To this end, the Service recently implemented a partnership with the Hispanic Association of Colleges and Universities. The Service stresses internal development and advancement of employees, with particular emphasis placed on the advancement of women and minorities to higher graded technical and management positions where they are currently underrepresented. Some of the Regions have already instituted programs which focus on pre-management identification and development of promising employees and the Service will explore the development of a uniform, national pre-management development program. This pre-management initiative would complement the Management Achievement Program, instituted in 1989, which provides comprehensive training and advancement opportunities for managers.

ERR-16 serves to add focus in these existing systems to women and minorities. The Service's Strategic Business Plan will also establish as a priority objective specific targets for increasing the number of women and minorities in the executive ranks.

Improving EEO Functional Support to Management: The Assistant to the Commissioner (EEO) is exercising a proactive leadership and oversight role. Trend analysis, business reviews of field EEO effectiveness, and development of relevant statistical data are primary objectives of the Service-wide EEO Office. Additionally, ERR-16 ensures executive accountability for EEO by mandating that all field EEO Officers report directly to their organizational component's head of office.

In addition to specific ERR-16 objectives, it is important to note that the Service has long supported an internal, independent IRS organization entitled The Association for the Improvement of Minorities (AIM), founded by black IRS employees in 1969. AIM has active chapters in IRS offices nationwide, and holds an annual conference which attracts top level Service officials. AIM's mission complements that of the EEO program, as it strives to educate and develop its members to the fullest of their potential, while ensuring the removal of discriminatory policies and practices. During the past two years, Hispanic Internal Revenue Employees (HIRE), an internal organization whose primary focus is the development and advancement of Hispanic employees, has established chapters in several IRS offices. The Service has also provided its full support to HIRE.

QUESTIONS FOR THE RECORD

Mr. ROYBAL. Mr. Goldberg, there are some questions from other Members that will be handed to you, and we would like to have those answers as soon as possible. The record, I suppose, will be closed in about a week. I would like to thank you, Mr. Johnson, Mr. Murphy, and the others for your testimony.

It is always a pleasure to be interviewing and auditioning the IRS instead of the reverse.

Mr. GOLDBERG. But Mr. Congressman, we are just here to help.

Mr. ROYBAL. The one problem is that we are a lot more helpful to them than an IRS agent would be to us.

Mr. SKEEN. Thank you all very much.

Mr. GOLDBERG. Thank you much, Mr. Chairman. I appreciate it.

[Questions and answers for the record and the justifications follow:]

ACCOUNTS RECEIVABLE ISSUES

MR. ROYBAL: During last year's appropriation hearings, IRS described several major initiatives underway to develop more accurate figures. Please provide an update on those initiatives, their current status, and any results to date.

MR. GOLDBERG: Initiatives are underway to transform the current Revenue Accounting Control System into an on-line real time accounting control and management information system that will capture accruals, provide an allowance for doubtful accounts and relate the information to amounts collected. This will be accomplished by the year 2000 in a three phase process.

Phase 1 is geared towards developing a methodology for providing the data related to accruals and the allowance for doubtful accounts. The Returns Processing Category Report (TRCAT) and Allowance for Doubtful Accounts (ADA) were implemented in 1989 to capture the accrued interest and penalty and provide the historical data needed for analysis to arrive at an allowance figure. The accrual information has been incorporated into Schedule 9, Report on Accounts and Loans Receivable since quarter ending September 30, 1989.

Phase 2 encompasses the next intitiative to migrate the current Revenue Accounting Control System to the interim architecture, Service Center Support System. Transfer of accounting data from the external support systems to the accounting system will be automated and entered through magnetic media or electronic transmission. Enhancements to the current feeder systems are required before the files can be transferred. This will be accomplished by the interim system's operational date in 1994/95.

Phase 3 of this process encompasses the targeted architecture for the year 2000 and beyond. Based on conceptual design, all financial information related to tax processing and its' related support systems will be fed into the central financial control operations of the Revenue Accounting System. The conceptual design of the target system is drastically different than the present system. Financial information is broadened to include all tax processing information from its point of origin through all subsequent operations.

The audit trail of detailed supporting financial information will be greatly expanded on both the target financial system and the related tax processing systems. The target system will contain sophisticated built-in financial auditing and analysis aids to ensure the integrity of the financial system. It will also provide ad-hoc reporting capabilities, including trends and comparisons.

Mr. Roybal: How much of th $61 billion in reported receivables can IRS reasonably expect to collect.

Mr. Goldberg: In October, we made a modification, as recommended by an outside accounting firm, to the method for calculating the accounts receivable figure. The current figure now reflects accrued but unassessed interest and penalties. Another recommended change is to calculate an allowance for doubtful accounts. We are currently analyzing historical data in order to arrive at an allowance figure. We believe these changes will allow for a more meaningful measurement of what we can reasonably be expected to collect over time. Our initial assessment is that about 40% of the current figure will ultimately be collected. The current figure is over $80 billion when currently not collectable accounts are included.

Accounts Receivable

Mr. Roybal: IRS' strategy in the past has appeared to involve no more than asking for additional resources in the Collection function. Has IRS determined to what extent its growth in accounts receivable is caused by actions in other functions, like Returns Processing, that would require some strategy other than additional Collection resources?

Mr. Goldberg: The analysis of growth in the accounts receivable inventory provided by Price-Waterhouse did not specifically address the portion of the growth attributable to compliance activities. We do know that we have stepped up our efforts to assess taxes against taxpayers who have not voluntarily filed and to examine tax returns where there is a likelihood that additional taxes will be owed.

We also recognize that management efforts can help in dealing with the complex issue of increasing accounts receivable inventories. We have established a new Office to implement recommendations that will have a major impact on accounts receivable. Analysts from Collection, Returns Processing and Computer Services will work together to implement the "vital few" projects which are crucial to improving the management of the accounts receivable inventory. These projects focus on the following:

Large Dollar Accounts - Review, size, determine the cause of problems, and develop national procedures. Development of management information system for trend reports, monitoring, and tracking.

Establishing a Permanent Service Center Function - To act as a focal point to monitor and resolve systemic and procedural problems related to accounts receivable issues.

Currently-Not-Collectible Accounts - Group established to review entire process and to issue a report by November 1990.

Accounts Receivable Management Information System and Controls - Identify trends, improve analysis and oversight. Part of a new three-stage financial management system to ultimately provide on-line, real-time accounting information.

Allocation of Collection Resources

Mr. Roybal: IRS Collection activities are broken down into three stages: service center collections, the Automated Collection System, and the field office function. The three stages consist of three different, consecutively stronger Collection approaches with correspondingly higher costs at each stage. The first stage basically involves correspondence with the taxpayer. The second stage involves telephone contact with the taxpayer and possible levy of the taxpayer's liquid assets in the possession of third parties. The final stage involves personal contact with the taxpayer and possible seizure of tangible property. IRS statistics show that most collections come from the notice process and specifically the first notice. IRS' fiscal year 1991 budget includes a request for 970 additional positions that IRS expects will enable it to dispose of about 60,000 additional unpaid accounts and collect an additional $150 million in fiscal year 1991.

How does the IRS plan to allocate the 970 additional collection positions among the three collection stages? What is the basis for this allocation?

Mr. Goldberg: Collection will allocate its additional resources to maximize revenue collections in FY 1991. Collection is now examining their resource needs in each of the three functions with a goal of closing cases at the earliest, and least costly, stage in the process. After analyzing the field's needs and our ability to hire and train new employees, we expect that we will allocate staff to each function, achieving the maximum staff levels in the service centers and Automated Collection System (ACS) before increasing field function staffing. In addition, approximately 60 staff years are allocated to Resources Management to support the new staff levels.

Mr. Roybal: What return has IRS experienced per dollar

spent for each of the three collection stages? How is this figure factored into the allocation process?

Mr. Goldberg: We estimate that, for every dollar spent, we collected $196 in the Service Center Collection Branch; $24 in ACS and $15 in the Collection Field Function. As a case works its way through the collection process, it becomes more expensive to close. Therefore, we allocate our resources to ensure that maximum effort is placed on cases in the earliest stages.

EXCISE TAX

Mr. Roybal: Is IRS losing $1 billion per year in gasoline excise tax?

Mr. Goldberg: Because of the relatively recent change in the law affecting the collection point of the gasoline excise tax, there is presently no IRS or Treasury estimate available on the scope of the total gasoline tax not collected.

We will work on producing an estimate but we will need a few years of experience before this can be done. However, we have started some compliance initiatives since we believe non-compliance is too high.

Some of our recent criminal enforcement initiatives include the formation of joint federal/state/local task forces to investigate and prosecute these offenders. Approximately 26 agreements have been signed between states and the IRS to cooperate on motor fuel excise tax initiatives. We have also formed an international task force with Canada and Customs to combat "bootlegging". For example, gasoline has been found to be smuggled into the U.S. inside milk trucks.

Each IRS district now has a project coordinator whose function is to work with the Examination Division auditors to identify major evaders of the motor fuel excise tax statutes. Moreover, grand juries are being convened throughout the country to investigate this area. Currently, investigations are being conducted in six of the seven IRS regions, and a grand jury is currently being convened in the seventh region. In addition to the steps I have just described, the Service has several other initiatives underway.

We are presently working with the Federal Highway Administration to develop a multi-year project to use money from the Highway Trust Fund to fund IRS compliance activities in cooperation with state tax agencies.

EXAMINATION

ACCELERATING CASE CLOSURES

IRS's budget request includes information on several management initiatives that IRS plans to implement. The intent of those initiatives is to generate increased revenues in fiscal year 1991, not through increased resources but through a reallocation of existing resources. Among those initiatives are three that involve steps directed at accelerating case closures and that would affect the use of Examination resources. One initiative, as we understand it, would delegate settlement authority so that the less contentious issues arising from audits of large corporations can be resolved separate from and more quickly than the more contentious issues. A second initiative, according to IRS would shift Examination resources to the Appeals function to expedite the closure of selected large cases. A third initiative calls for accelerating the closure of 50,000 more tax shelter cases.

Mr Roybal: These efforts to expedite case closures could easily be perceived as an acknowledgement by IRS that it is eager to resolve cases and get some money into the Treasury. What controls does IRS have in place to assure itself that the push to generate revenues does not result in closure decisions that inadequately protect the Government's interests?

Mr Goldberg: All three of these initiatives involve making more effective use of our current resources to resolve these issues. They do not involve "shortcuts" that will undermine the Government's interests. Nevertheless, we are in the process of developing implementation plans and procedures to coordinate the actions of the involved functions, Examination, Appeals, and Counsel, in order to insure that all of these initiatives will result in the equitable resolution of tax cases and not merely case closure for the sake of generating revenues.

Mr. Roybal: If IRS plans to use more Examination resources to help settle large cases, bring appeals cases to closure, and expedite action on tax shelter cases, it will have to do less of something else. What will IRS be doing less of? Please be specific as possible?

Mr. Goldberg: With respect to the large case and tax shelter initiatives, we will not be devoting fewer resources in another area, but will be using our current resources more efficiently. For the large case initiative, not only will we delegate to team managers strictly controlled settlement authority regarding only specific recurring issues for resolution at their level, but we will also make improvements to our management processes regarding the large case program. Examples of this systemic streamlining include functional communications among Examinations, Appeals and Counsel, and a stronger Industry Specialization program.

For the tax shelter initiative, we have convened a multi-functional task force comprised of Examination, Appeals and Counsel personnel in order to identify the key shelters cases for immediate action. Examination will be able to complete more tax shelter reports without additional resources by (1) streamlining current processes, and (2) reallocating staff that are currently performing adminstrative procedures on incoming cases to the final steps in the process.

By diverting Examination staff in order to close appellate cases, we will be doing fewer examinations in programs such as individual and low to mid-level corporate tax returns. We will, however, still be maintaining an enforcement presence in those classes of tax returns.

EXCISE TAX AUDITS

One of IRS' management initiatives involves the redirection of 150 Examination positions from "low yield audits to higher yield excise tax examinations".

Mr. Roybal: What type of low-yield audits will IRS not be doing as a result of this redirection of resources?

Mr. Goldberg: Resources will be reallocated from lower yielding individual (non-business individual with total positive income less than $25,000) and corporate tax returns (with balance sheets reflecting assets under $100,000) to excise tax returns.

Mr. Roybal: Does this diversion of Examination resources from lower to higher yield audits represent a change in IRS' audit philosophy?

If so, is it a change that IRS expects to adopt for the long term or is it a short term deviation necessitated by the need for additional revenues?

Mr. Goldberg: This initiative does not represent a change in the IRS audit philosophy. We have always allocated our Examination resources based on a two-part strategy: to optimize the marginal yield-to-cost ratios in each audit class and to achieve a balanced level of voluntary compliance among those classes. We are constantly revising our resource models to reflect the most recently available historical data. At the same time, we have also devoted resources to target particularly non-compliant tax issues, such as abusive tax shelters. Recently, we have made a concerted effort to migrate our resources into higher yielding classes while maintaining a full presence in all tax classes. This initiative still reflects this philosophy. Recent data has shown that the excise area, particularly fuels, will yield productive examination results.

UNRELATED BUSINESS INCOME

Mr. Roybal: Now that Taxpayer Compliance Measurement Program data has been incorporated into IRS' process for selecting exempt organization returns for audit, what has been the effect on IRS' ability to detect noncompliance with the unrelated business income tax?

+Mr. Goldberg: The underlying examinations that form the basis of the Taxpayer Compliance Measurement Program were completed in September 1989. Data collected from these examinations is currently being tabulated. It is therefore much too early to determine the effect of the TCMP on our compliance activity in the UBI area.

INTEGRITY INVESTIGATIONS

Mr Roybal: What type of transactions are considered to be high-risk and subject to Internal Audit review?

Mr. Goldberg: There are two approaches that Internal Audit uses to examine high-risk Service transactions. First, Internal Audit has divided IRS programs into approximately 125 assessable units and reviews high-risk transactions within each of these units as part of its normal review process. Transactions defined as "high-risk" include those where cash or checks are handled such as Taxpayer Remittances, Refund Processing and Imprest Funds and those subject to fraud or manipulation such as Taxpayer Account Adjustments, Procurement and Accounting. Second, Internal Audit and Internal Security cooperate in examining transactions where an internal audit or investigation has revealed specific integrity problems that require further analysis. For example, Internal Audit and Internal Security cooperated on an intensive review of emergency salary payments made to Service employees that uncovered numerous instances of fraud and abuse.

Mr. Roybal: Besides an Internal Audit division, IRS has an Internal Security division, whose responsibilities include the conduct of integrity investigations. Please explain how Internal Security's role in integrity investigations differs from Internal Audit's and why additional resources for integrity work are being sought for Internal Audit and not Internal Security.

Mr. Goldberg: First of all, we need to differentiate between the integrity programs conducted by Internal Audit and Internal Security and integrity investigations conducted solely by Internal Security. The integrity programs of both divisions are designed to be proactive. In other words, we don't wait for allegations of fraud or misconduct to surface in a high-risk area before examining it; we go out and subject these areas to special review and analysis before problems become pervasive. Both divisions' integrity programs also have a deterrent effect because our employees know that high-risk areas may be subjected to random, unscheduled review at any time. On the other hand, integrity investigations conducted by Internal Security are done in response to a specific allegation or the need for a background check on an employee. These investigations are the majority of the day-to-day business of Internal Security and preserve Service integrity by ensuring that we hire and retain employees that meet our high standards and promptly investigate any allegations of misconduct.

Resources expended on Internal Audit's integrity program are divided into four major areas. First is coverage of high-risk areas during normal audit coverage as I just discussed. Second are presentations to management on internal controls where the results of past audits and trend analysis are used to show functional managers how to recognize and combat control breakdowns in their programs. Third are integrity projects where

an area like accounts closed as uncollectible by Revenue Officers will be subjected to special analysis and any potential integrity breaches referred to Internal Security for detailed investigation. Fourth is providing assistance to Internal Security in wide-scale investigations such as the emergency salary payment fraud mentioned previously.

Internal Security's integrity program is divided into five main areas. They give integrity presentations to all front-line Service employees on bribery and fraud and how to deal with potential assault situations. They conduct tests on Service employees that directly handle taxpayer remittances to ensure that all funds received are properly processed and accounted for. As mentioned, they cooperate with Internal Audit and they also initiate their own integrity projects such as sending a cooperating Revenue Agent or Officer into a business area where both noncompliance and instances of bribery have been high. Finally, since the great majority of Internal Security investigations come from allegations received from employees or outside sources, they expend time on liaison activities with local law enforcement, IRS employee groups and confidential informants.

More integrity resources are being requested for Internal Audit in FY 1991 to make up for the drastic declines cited in the GAO report. Time expended on the Internal Audit integrity program should be at 9% of total time and it declined to less than 5% during FY 1980 - FY 1988. On the other hand, we have been able to maintain time on the Internal Security integrity program at approximately 5% which we consider an adequate commitment.

Mr. Roybal: How many staff years do Internal Audit and Internal Security expect to devote to integrity investigations in fiscal year 1990 and how does IRS expect these numbers to change in fiscal year 1991? Please provide separate data for each function.

Mr. Goldberg: Internal Audit's integrity program will expend approximately 62 staff years in FY 1990 and will increase to 67 in FY 1991 assuming Congressional approval of our request. Time expended on Internal Security's integrity program will be maintained at 5%, or approximately 34 staff years in FY 1990 and 36 in FY 1991.

Mr. Roybal: Please explain the interrelationships between IRS' Internal Audit and Internal Security Divisions and Treasury's Inspector General. Who is responsible for what and how are these responsibilities coordinated?

Mr. Goldberg: The Assistant Commissioner (Inspection), who has direct line authority over the Internal Audit and Internal Security divisions, reports to the Commissioner of IRS. Internal audits and investigations dealing with IRS programs and employees

are conducted by the Assistant Commissioner (Inspection) with the results reported to both the Commissioner and the Inspector General. The Inspector General provides oversight of IRS Inspection, investigates allegations of misconduct of senior IRS officials and performs joint audits and investigations with IRS and other bureaus of Treasury programs.

Since the Assistant Commissioner (Inspection) consults and meets regularly with the Inspector General, coordination problems are minimal and can be quickly and easily resolved. IRS recently transferred resources to the Inspector General to provide them with sufficient staff to conduct Internal Security investigations on senior-level IRS officials GS-15 and above and on all Inspection employees. In addition, they were given staff to allow them to conduct regular reviews of all the Service's Internal Audit and Internal Security programs. I strongly supported giving the IG these resources and welcome this independent oversight that will allow me to ensure that IRS Inspection programs are being run as well as possible.

Mr. Roybal: How will the integrity work being done by the Inspector General and by IRS' Internal Audit and Internal Security be coordinated to avoid duplication? Who is primarily responsible for identifying and investigating potential integrity breaches within IRS?

Mr. Goldberg: The Inspector General is not directly involved in the integrity programs run by IRS Internal Audit and Internal Security that I described earlier. As I also mentioned earlier, the IG is involved in review and oversight over all Inspection programs including integrity and investigates any misconduct allegations on senior IRS officials. If the IG feels that a particular integrity issue in the Service should be directly investigated by his office, he has the authority to do so. There is no overlap of responsibilities and we have not experienced nor do we anticipate any coordination problems in the integrity program.

FY 1990 BUDGETARY SHORTFALL

Mr. Roybal: How will the continuing budgetary shortfall in fiscal year 1990 further affect IRS' ability to serve the public, generate revenues, and provide an appropriate working environment for its employees? Please be as specific as possible.

Mr. Goldberg: The continuing budgetary shortfall in FY 1990 has forced the IRS to reduce spending for supporting services and information systems and to limit hiring to key job occupations and specialties. The IRS has also delayed startup of the FY 1990 revenue initiatives. The processing of tax returns and the issuing of timely refunds will not be affected.

IRS's FISCAL CONDITION
Budgetary Shortfalls

Mr. Roybal: To what extent were IRS' budgetary shortfalls in fiscal years 1989 and 1990 due to constraints (such as the need to absorb pay raises) that are outside IRS' control and to what extent were they due to factors within IRS' control? Please be specific as to the causes of the shortfalls.

a. Does IRS have the necessary systems and controls in place to effectively monitor budget execution and to hold its field managers accountable for their fiscal activities?

Mr. Goldberg: The Internal Revenue Service, like other Federal agencies, is facing budget problems, again, this time in Fiscal Year 1990 which are caused by both internal and external actions. The primary external actions, which necessitated cutbacks, were made to cover sequestration ($46 million), and the statutory requirements to cover this year's 3.6 percent pay raise ($103 million) and increases to the government's share of employee benefits for retirement ($40 million) and health insurance and medicare ($34 million).

Internal actions for which total cost are still being annualized have caused funding cutbacks due to the need to cover employee promotions and upgrades that we believed were important to remain competitive, advancement of trainees, and employee within-grade increases. A realignment of resources was also necessary to cover additional needs in the tax forms distribution program, process backlogs in currency transaction reports, increase internal audit coverage, cover electronic filing resource shortages and restore A-76 cuts.

For Fiscal Year 1990, the Service has put in place a strategy for financial control and monitoring. Steps have already been taken to implement a freeze on hiring, reassignments, and promotions. Increased emphasis is being placed on position management and additional controls are being placed on ADP expenditures. Training expenditures are being severely restricted.

Decision levels in the awarding of lease renewals and equipment purchases have been raised to the director level. Deputy Commissioners have been holding one on one sessions with plan managers to assess the impact of resource limitations and opportunities for resource adjustments.

The Service will shortly be addressing its ability to meet external commitments contained in the FY 1990 budget, including a restoration to the 80% taxpayer service level, a buy back of revenue initiative reductions, and addressing contingent program reductions (e.g. Information Returns Program). After modifying the financial plan to reflect decisions, plan managers will be held accountable for living within the financial plan for the balance of the fiscal year. Plan Managers' spending will be monitored closely on a monthly basis.

Systemic changes are being put in place to strengthen financial management controls. These involve:

Reorganization - Creation of Chief Financial Officer and Comptroller positions with enhanced financial organization at the Assistant Commissioner level. This will result in improved control and analysis and in Servicewide accounting standards.

Automated Financial System (AFS) - the Budget module is now operational and the accounting module has recently been purchased. More timely financial information will be available as a result of these improvements.

Financial Accountability - Corporate critical success factors will emphasize financial accountability of plan managers.

Streamline Financial Review Process - New plan formulation process, with expanded plan manager input, will improve estimates, thereby providing a solid base for holding plan managers accountable.

Revised Appropriation Structure - Will result in improved budgetary and accounting for information systems.

Improved Realism in the Middle Column of the Budget - Basing fiscal year 1991 and subsequent budgets on current year plan will make it more feasible to execute budgets as proposed.

POSSIBLE BUDGET SHORTFALL, FY 1991

Mr Roybal: What are the prospects for another shortfall in fiscal year 1991? What known or potential factors could cause a shortfall condition in fiscal year 1991? What contingency plans does IRS have should the worst case scenario come true?

Mr. Goldberg: The budget request does provide for substantial improvements in tax administration and meets most cost factors we now foresee. Compared to budget proposals for FY 1989 and FY 1990, the budget for FY 1991 does address many of the deficiencies we have encountered in recent years. The additional funds requested, $635 million, together with structural improvements we are now implementing, will cover most cost items.

We may face potential increased costs related to both discretionary and unavoidable issues, such as:

- ADP and information technology needs;
- space rental payments to GSA;
- special salary rates for employees in hard-to-fill occupations and in entry-level positions;
- locality pay differentials for the Los Angeles, San Francisco and New York metropolitan areas; and
- prospective postal rate increase ($20 to $25 million on an annual basis).

Hopefully, the Administration and the Congress can come together on a budget agreement to reduce the deficit, without a sequester. Under a worst case scenario that involves significant sequestration of funds, IRS would be forced to cut back substantially in all programs, with reductions in both service and enforcement areas. Loss of tax revenues would occur which would further exacerbate the Federal deficit.

FY 1991 STAFFING OFFSET

Mr. Roybal: At the same time IRS is seeking additional enforcement staff in its fiscal year 1991 budget, another line item in IRS' budget calls for a reduction of about 1,600 staff to offset pay costs.

a. What kinds of reductions are being contemplated? What will be the impact on IRS operations?

Mr. Goldberg: The IRS is planning across the board cuts in less critical staffing and program support areas to offset the increased pay costs.

The impact on overall IRS operations is expected to be minimal.

EFFECT OF FY 1990 SEQUESTRATION

Mr. Roybal: IRS, like other federal agencies, had to adjust its fiscal year 1990 financial plan because of sequestration. According to information in IRS' budget for fiscal year 1991, that adjustment involved a reduction of 737 positions and $46.2 million.

1. What will be the effect of those reductions on IRS' ability to service taxpayers and/or generate revenues?

Mr. Goldberg: The IRS reductions taken to meet the sequestration target of $46.2 million were allocated in such a way has to exempt revenue producing programs. The reduction in funding for our taxpayer service function as a result of sequestration contributed to a lowering of the level of service objective from 80% to 75% although we have at the same time improved our accuracy rate by 10 percentage points. The sequester of funds in FY 1990 had no effect on our ability to process tax returns and issue refunds timely.

POSSIBLE SEQUESTRATION, FY 1991

Mr. Roybal: Since another sequestration has to be considered a possibility in fiscal year 1991, what contingency plans has IRS made to deal with that eventuality?

Mr. Goldberg: Hopefully, sequestration will not be needed to meet the deficit reduction targets required under Gramm-Rudman-Hollings legislation. A sequester would force IRS to cut back in all areas of tax administration and would definitely affect our ability to move ahead on tax systems modernization and on our initiatives to improve tax compliance. Tax revenues could be lost.

ELECTRONIC FILING

Mr. Roybal: Please provide details on the benefits associated with electronic filing in terms of quality and processing costs, including the staff year savings associated with electronic filing.

Mr. Goldberg: The whole rationale of the Electronic Filing Project is to provide a means of processing tax returns and documents that is faster, more accurate, less expensive and more efficient and effective.

Since electronic filing reduces the number of paper returns filed, then the costs associated with return manipulation through normal input processes and storage and retrieval can be expected to decrease.

Incorporating and expanding electronic filing of returns into the tax processing system will help alleviate such problems as the increasing disparity between the timing of filings and the availability of staff to process returns, the need for faster processing of tax information, payments and refunds, and the need to make information on returns more accessible.

There are also significant savings as a result of the greatly reduced error rate; for tax year 1988 the paper error rate was 19.8 percent versus 3.3 percent for electronically filed returns. This means labor cost avoidance in notice review, adjustments and compliance activities.

Our savings estimates are being based on a projection of processing 120 million returns electronically over the 12 year life of the system. At this point we do not envision a major staff reduction. What we do see is that the historical increase in staffing, tied to normal return volume growth, will be avoided. The cost avoidance savings in staffing is estimated at $ 145 million over the life of the system.

Electronic filing is cost effective to the taxpayer as they are getting a quality service with assurance IRS received their return and a quicker refund.

The intangible benefits of electronic filing are many. Electronic filing is an important step toward the redesign of service center document input processes. It has met with

considerable support not only within the IRS but within the tax preparer community as well. Its benefits range from the tangible such as staff cost avoidance, to the intangible, such as improved taxpayer relations.

If the Service is unable to process returns in a timely fashion and tax refunds are delayed due to input processing delays, taxpayer relations and the public's perception of the Internal Revenue Service will be degraded. This fact has been amply demonstrated in the recent past. The loss of public confidence will adversely impact the level of voluntary compliance with the nation's tax laws. The low error rates and improved processing time build taxpayer confidence in the Service.

ELECTRONIC FILING

Mr. Roybal: Given the potential economies associated with electronic filing, what specific actions is IRS taking to promote and encourage the use of electronic filing this year and what additional actions is it contemplating in the future?

Mr. Goldberg: We have been able to expand our promotional efforts this year because for the first time, Electronic Filing is available to taxpayers nationwide. We began that expansion by including in the Form 1040 Package -- mailed to millions of taxpayers each year -- our initial announcement about this year's Electronic Filing program. We encouraged taxpayers to take a look at the possibility and the benefits of filing their tax returns electronically. The Electronic Filing message is also included in this year's Publication 17, "Your Federal Income Tax" bulletin.

We have conducted Electronic Filing seminars around the country, explaining the process of electronic filing and encouraging practitioners to offer this service to their clients.

In addition, we have developed or revised and distributed various marketing tools for use by the general public. Colorful posters and brochures head the list. A video tape, which clearly explains the electronic filing process, has been developed and shown around the country in our seminar presentations. Video News Releases and "B" Rolls are available to the media, as well as Fact Sheets and Reporter Kits.

We have also added to the Tele-Tax Topics -- our automated phone services -- information about Electronic Filing. Taxpayers may call in, request Tele-Tax Topic #112, and hear what Electronic Filing has to offer.

This year, we have made several television appearances on the Financial News Network show -- IRS Tax Beat -- where we discussed the benefits of Electronic Filing.

With all of this, we continue to look for ways to expand the use of Electronic Filing. We are researching the feasibility of expanding the availability of Electronic Filing to other than refund returns. And, while we are now capable of

processing the majority of forms and schedules compatible to the Form 1040, we will certainly expand the list of qualified forms for next year, making it possible for even more people to use Electronic Filing.

ELECTRONIC FILING

Mr. Roybal: As the program now operates, taxpayers have to pay practitioners in order to have their returns filed electronically. Given the apparent benefit to IRS in terms of reduced processing costs and more accurate processing, has the IRS considered how it might make electronic filing more accessible to the general public?

Mr. Goldberg: Some of the Volunteer Income Tax Assistance Program (VITA) sites across the United States are now offering electronic filing as well as return preparation. In addition, the IRS is looking into the feasibility of piloting a program in one of our district offices providing not only assistance to taxpayers who walk into the office by completing their returns, but offering to file their returns electronically.

Mr. Roybal: What would preclude the IRS from setting up electronic filing stations at its field offices and having IRS employees help taxpayers electronically file?

Mr. Goldberg: The results must be reviewed in depth before making a decision to expand the availability of services. We must be convinced that it is cost effective, feasible and something we can offer to all taxpayers nationwide. Currently, our offices do not have the proper equipment or the staff to handle this additional workload.

Questions Submitted by Mr. Roybal

Mr. Roybal: What does IRS believe is an appropriate expenditure, in terms of staff time, on correcting errors and assuring quality?

Mr. Goldberg: The IRS now expends five percent of direct staff hours monitoring quality; three and one-half percent is expended on employee evaluations; the remainder is used for product review. This figure does not include those areas of rework within our pipeline/non-pipeline activities (Error Resolution, Unpostables, Tax Account Activity, etc.). These areas account for additional expenditures which range from 14 to 21 percent of total staff hours.

Our long term goal is to achieve the five percent level for correcting errors and assuring quality throughout the pipeline/non-pipeline process, including Quality Assurance. This goal can be achieved through our continuing Quality improvement/breakthrough process which has gained momentum over the past several years. Although the attainment of "zero defects" is an admirable goal and is being actively pursed in some

quarters of the private sector we believe that its pursuit will require significantly higher expenditures in the areas of quality appraisal and prevention. Considering current and projected budget constraints this approach would not be practicable.

The Service is now in a Quality planning and transitional stage in an attempt to achieve an optimum level of error free performance through improvement. Consequently, we are expending a disproportionate amount of staff years in the areas of quality appraisal and prevention to achieve meaningful improvements throughout the pipeline/non-pipeline process. With the initialization of any Quality program (planning and transition) increased expenditures are required in order to research, analyze control and improve our system so that failure costs and processing costs can be significantly reduced and the organization's optimum Quality goal can be achieved.

SERVICE CENTER QUALITY

Mr. Roybal: What measures does IRS have to assess Service Center quality? What do the most recent measures show?

Mr. Goldberg: A number of quality processes are available to provide helpful information. These quality processes identify specific problems and responsible functions. They also enable an analyst to assess problems and make recommendations for improvements. Below are descriptions of the major processes.

1. Program Analysis System (PAS) - PAS is a program review system that identifies overall systemic and procedural causes of errors by identifying the source, description and point of error, and provides management with important feedback on program effectiveness. The specific areas that PAS reviews are the Error Resolution System (ERS) - both IMF and BMF (Form 941), Adjustments (ADJ), Correspondence (COR), Generalized Unpostable Framework (GUF), Output Review (ORA), and Refund Inquiry (RIP).

2. Process Review - Process Review is a work-in-process review that provides management with immediate feedback on the status and "fitness for use" of the products produced by any service center function. The focus of the review is determined by a joint agreement between the managers of the function to be reviewed, and the Quality Assurance Branch. Feedback includes narrative reports and trend charts.

3. Quality Analysis - QA's are special studies of an operation or process to determine and report whether it is functioning properly and whether it is conforming to established procedures, or to determine the core cause of a problem. Reports and recommendations are given to management at the end of the Quality Analysis.

4. Performance Indicators - Performance Indicators (trend charts) are methods of capturing specific data from key processing points in service center functions. They are used in conjunction with existing quality monitoring systems. PAS, Process Review, and Quality Analysis can provide insight into why a particular Performance Indicator is out of statistical control.

5. Individual Review - The Individual Review process is designed to sample individual work units for the purpose of providing feedback to the employee, and to the functional manager. This provides the basis for evaluation of the employees performance, and the assessment of training needs.

PAS Adjustments shows an upward trend in accuracy rates of cases processed in the Adjustments/Correspondence Branch, and improvement in 1989 from 75.3% accuracy in June to 80.7% in November.

The most recent data collected from PAS-ERS (IMF) shows that the most common error the taxpayers are making is claiming earned income credit when they're not entitled to it. The most common Service center error occurs in Data Conversion. The transcribers are failing to enter the Dependency Status Indicator.

Mr. Roybal: What are IRS' most critical quality problems at the service centers and what specific causes has IRS identified? What is IRS doing to remedy those causes?

Mr. Goldberg: At a recent executive level conference, a number of processing problems were identified as critical. These include :
Federal Tax Deposit Form (8109B) - a mismatch between the name on the Form and the FTD database; a mismatch between the Employer Identification Number (EIN) on the form and the FTD Database; misclassification of trust fund money due to the erroneous designation of tax on the form.
Processing Codes - Code & Edit failed to edit the Returns Processing Code. Code & Edit failed to edit the exemption for other dependents. Code & Edit omitted the Status Indicator Code on Form 941.
Other Than Full Paid error rates - The error rate on other than full paid returns increased after the peak filing season.
Earned Income Credit - Errors concerning Earned Income Credit (EIC) are a problem throughout the service centers.
Correspondence - Service centers are not corresponding or are corresponding incorrectly with the taxpayers.
Primary Social Security Number - Primary social security numbers are incorrectly transcribed.

Each service center was assigned a specific

problem and is expected to study it and recommend solutions. National office analysts are coordinating each of these studies.

The Quality Improvement Process (QIP) involves teams of employees who meet regularly, and using analytical techniques and methods, discuss chronic problems that affect their operations. After a probable solution has been determined, the group follows through with a testing phase, then a solution monitoring phase.

Additionally, the Program Analysis System (PAS) is an ongoing process which collects data from all ten service centers on a weekly basis. The information is analyzed and is provided to the functional areas at both the service center and national office levels.

Questions Submitted by Mr. Roybal

Mr. Roybal: What impact have the numerous quality improvement projects undertaken at the service centers had on reducing the cost of poor quality?

Mr Goldberg: To date there have been some significant improvements in reducing the cost of poor quality within the pipeline/non-pipeline process. Quality improvements were mainly experienced in the rework areas of Error Resolution , Adjustments , and Unpostables through the extensive use of Quality appraisal and prevention techniques.

We are now in the process of developing a system to specifically track the cost of poor quality as it relates to the organization's operating costs. Once this system is in place, we will be better able to quantify the savings stemming from improvements made to our pipeline/non-pipeline process and track our effectiveness in reducing the cost of poor quality.

SERVICE CENTER STAFFING

Mr. Roybal: In response to questions raised during last year's appropriations process, IRS said that it wanted to increase the ratio of permanent to seasonal employees at the 10 service centers to 60/40. At that time, according to IRS permanent employees accounted for less than 50 percent of service center staff. IRS said that increasing the ratio to 60/40 would reduce recruitment costs, reduce training needs, and lead to a more experienced work force.

1. Is the 60/40 ratio still an IRS goal? If so, what progress has been made in achieving it?

Mr. Goldberg: We have issued a general guideline to the service centers for a 60/40 mix. As of December 31, 1989, we have achieved a 56/44 ratio in our FY 1990 Current Financial Plan.

Mr. Roybal: 2. For fiscal year 1991, IRS is requesting funds for 528 additional permanent positions for the returns processing and accounting function. How would this increase change the permanent seasonal ratio?

Mr. Goldberg: Our request for 528 additional positions (offset somewhat by a decrease in the other category) will have a positive effect in moving toward our goal of a 60/40 mix. A recalculation indicates that we would be close to a 57/43 mix.

REVENUE INITIATIVES

Mr. Roybal: IRS' Fiscal Year 1991 budget request calls for an additional $191 million and 3,476 positions to finance several enforcement initiatives that are expected to generate about $500 million in additional tax collections in Fiscal Year 1991. Among other things, the initiatives call for closing more delinquent tax accounts, auditing more tax returns, and matching more information documents. In an August, 1988 report, GAO discussed various problems with IRS' process for estimating examination revenues (GAO/GGD-88-119). IRS subsequently conducted its own research, which confirmed GAO's findings and pointed to problems with IRS' revenue estimating processes in other enforcement functions. Among other things, IRS determined that it was not until the third year after an increase in Examination staff that the Treasury starts realizing an increase in revenues. Until then, any increase in revenues generated by the new staff is more than offset by the unrealized revenues associated with using experienced audit staff to train the new staff.

In light of GAO's and IRS' findings, what is IRS doing and what does it plan to do to improve the reliability of its revenue estimates? Please provide specifics including the time frames associated with those improvement efforts.

Mr. Goldberg: The IRS has been pursuing a number of studies and projects to improve our revenue estimating processes since these concerns came to light in 1988. These efforts fall into two areas - improving our revenue data on which we assess results and base projections, and improving our estimating techniques.

We have developed extracts of our master file data to determine how much is collected annually from enforcement actions in general. These extracts are now in the final stages of review and should be ready in the next few months.

A study of the accuracy of the data gathering system in current use in the Collection function has almost been completed. We expect to have a first draft in April with a final report a short time later.

A major new project to improve the quality of our data on IRS enforcement programs was begun last year. This is the development of a servicewide enforcement data collection and storage system currently called the Enforcement Management Information System (EMIS). EMIS will eventually capture data on a case by case basis in all our enforcement areas. These data will

include costs, timing, type of case, amounts recommended, assessed, and collected by enforcement area. EMIS will begin gathering selected data in July, 1990 but, due to the length of some of our enforcement actions, trend data will not be available for at least a year or two. Complete data for all our enforcement functions will not be available for at least four to five years.

Two prior projects have been subsumed into the EMIS effort and EMIS is being designed to answer these concerns. The first of these was a project to determine the rate at which adjustments proposed by Examination are eventually sustained in Appeals. The other was a study to improve the Examination informations systems and improve the Examination Resource Allocation Model.

Another data improvement study is underway to replace certain estimates now made in our Taxpayer Compliance Measurement Program (TCMP) with actual data, including the eventual assessments from unagreed TCMP cases in Examination. Currently, our TCMP program tracks cases only through the Examination recommendation. These studies will not be complete until 1992 for corporate data and 1993 for individual data.

We have started to look at developing a model that will allow us to better estimate our enforcement revenue work flow and therefore our eventual collections. This would be along the lines of an internal "input-output" model. The development of this model is dependent, however, on better data than we now have so it will necessarily have to follow the completion of our data improvement projects - especially EMIS.

Finally, two projects involving the improvement of Chief Counsel resource allocation and revenue projection are temporarily on hold due to the major emphasis being placed on EMIS. EMIS will also track Chief Counsel data.

BEST ESTIMATE OF ENFORCEMENT REVENUE GENERATED - FY 1989 -

Mr. Roybal: Knowing what IRS now knows about its revenue estimating processes, what would be IRS' best estimate of the total amount of revenue generated in fiscal year 1989 as a result of its enforcement efforts ?

Mr. Goldberg: Preliminary extracts from our master files indicate that for fiscal year 1989, $29.6 billion was generated from IRS enforcement efforts.

REVENUE INITIATIVE ESTIMATES

Mr. Roybal: Given the problems identified in GAO's report and in IRS' own research paper, what assurances can IRS give the Committee as to the reliability of the revenue estimates associated with the initiatives in this year's budget?

Mr. Goldberg: The revenue estimates associated with the initiatives in this year's budget were developed using our most recent data and incorporate everything we've learned about revenue estimating in the last two years. In this regard, GAO's report has been a valuable contribution to improving our estimating process. Improving both the quality and quantity of data upon which to track actual accomplishments and project future results is a priority for the IRS.

In the case of this year's initiatives, we have incorporated aspects of timing, opportunity costs, and settlement rates into the estimates associated with our Examination initiatives. Our estimates for the Returns Processing initiatives, while dealing with new tax issues, are based on statistically valid samples and, in one case, the entire universe of returns involved. The Accounts Receivable initiative estimates are based on historical data and are somewhat conservative when compared to past estimates for initiatives in this program.

REVENUE INITIATIVE TRACKING

Mr. Roybal: Will IRS be able to come back to the Committee at the end of Fiscal Year 1991 and show what was eventually accomplished under each initiative compared to what was planned? If not, why not?

Mr. Goldberg: We are already devising methods for tracking these initiatives during FY 1991. We will establish estimated program baselines for each initiative and will monitor the accomplishment of initiatives as compared to the base programs on a quarterly basis. We will assess whether the goal of the base plus the initiative is being realized and make any mid-course alterations necessary to reach initiative objectives.

REVENUE INITIATIVE HIRING

Mr. Roybal: Some of the revenue initiatives, especially those for Examination and Collection, will require hiring a significant number of additional staff. Assuming the appropriation is enacted in September 1990, when can IRS reasonably expect to have the additional staff on board?

Mr. Goldberg: We will begin to recruit and screen possible new staff this summer. Offers of employment may be extended contingent on the availability of funds. We are committed to bring on board the additional staff as swiftly as possible. Any delay in enactment of the appropriation beyond September 1990 would seriously reduce our ability to meet our enforcement revenue objectives.

EFFECT OF HIRING FREEZE

Mr. Roybal: IRS has had a hiring freeze in effect since October 1988. Coming on the heels of that freeze, to what extent will the increased enforcement staff called for in the 1991 budget merely allow IRS to fill positions left vacant because of the freeze? Please provide specifics on the number of revenue agents and revenue officers on board as of September 1988, the number currently on board, and the number IRS would expect to have on board after completing the additional hiring contemplated by the 1991 budget.

Mr. Goldberg: The increased enforcement staffing called for in the FY 1991 budget serves to augment current staffing levels. The current staffing levels will serve as a base upon which the additional staffing will build.

Time Period	Number of Examination Revenue Agents	Number of Collection Revenue Officers
Sept. 88	17,323	8,432
Feb. 90	15,924	7,775
Feb. 91	16,312	8,175

TAX GAP

Mr. Roybal: Does IRS have a more current estimate of the gross tax gap? If so, what is it; if no, when might one be available?

Mr. Goldberg: IRS does not have a more current estimate of the gross tax gap at the moment; however, we are in the process of updating and expanding our 1988 gross tax gap estimates. The updated estimates, which should be available later this year, will reflect the effects of continuing changes in tax legislation and administration, the availability of new data sources, and improvements in estimation techniques.

Whereas the 1988 estimates for individuals were based on 1979 and 1982 TCMP data, the updated estimates will take advantage of the availability of 1985 TCMP data for individuals. We are currently revising our tax gap estimation models to make use of these more recent TCMP data. The updated estimates will also include employment tax gap, remittance tax gap, and illegal-sector tax gap estimates that were not part of the 1988 gross tax gap estimates.

TAX GAP

Mr. Roybal: What is IRS doing to close the tax gap, particularly the amounts caused by unreported income and corporations?

Mr. Goldberg: The 1987 Tax Gap figures indicate that 35.5% of the tax gap results from the underreported income from small businesses. Unfortunately much of this is spread so thinly as to make traditional enforcement methods ineffective and cost prohibitive. An effort is under way to identify and implement in a test environment a variety of non-enforcement educational and prompting techniques. Measurement techniques will be used to judge the impact of these efforts on taxpayer compliance behavior.

Projects currently being developed are:

1. Software which will be used to provide business taxpayers, upon request, with an individualized tax calendar. The calendar will prompt the taxpayers with dates for return filing, tax deposits and payments for income, payroll, and excise taxes.

2. A monthly IRS newsletter for new small business owners. Twelve issues will be developed, covering basic tax law, recordkeeping requirements and methods, and filing and payment procedures, with references for further information. A monthly tax calendar will appear in each issue.

3. A procedure for validating filing requirement information received from taxpayers on their application form for an Employer Identification Number. Requiring taxpayers to confirm, specifically, their past due and currently due returns will allow measurement of reinforcement techniques as a prompting device.

4. A self-help program covering payroll taxes is being piloted in the St. Louis District. Business owners are offered the opportunity to bring their payroll records to a workshop and receive assistance in completing their payroll tax returns.

5. A five year survey will be initiated to determine the most beneficial use of IRS resources in addressing the needs of small business owners. Information will be obtained on the longevity of new small businesses operated by first time owners, the number of those who rely on professional tax assistance, and the correlation between the use of such help and the survival rates of new businesses.

TAX GAP

Mr. Roybal: How much of the gross tax gap can IRS reasonably expect to collect?

Mr. Goldberg: Although IRS has a reasonable basis for estimating the total extent of noncompliance, at this time we cannot estimate with as much certainty how much of the gross tax gap we could reasonably expect to collect on a cost-effective basis. This is due to a number of factors involving the nature of noncompliance and the nature of tax law enforcement:

1. Much of the gross tax gap--almost half--is due to unreported income of types not covered by third-party information returns. Much of this income, such as incomes earned by informal suppliers or cash payments to individuals working "off the books," can be very difficult to detect on an individual basis.

2. It is sometimes difficult to collect unpaid taxes that can be detected. Although most taxpayers who are found to owe additional tax, penalties, and interest cooperate to pay their assessments fairly quickly, some accounts are never fully collected, especially if the taxpayer is unable to pay and does not have sufficient assets to cover the liability.

3. Much noncompliance occurs in relatively small amounts, spread over large numbers of taxpayers. Because the amounts of unreported liability per taxpayer are small relative to the costs of detecting and collecting such liabilities, a large portion of such noncompliance could neither be detected nor collected cost-effectively under existing enforcement programs.

4. Existing IRS enforcement programs operate at very favorable yield-to-cost ratios, so that expanding them would yield additional revenues at least four or five times the cost of the expansion. Because these programs currently operate so far from the margin, however, existing operational data are not adequate to project at what point further expansion would eventually cease to be cost-effective.

In summary, while it would be cost-effective to collect a significant portion of the gross tax gap, especially with an increase in the amount of resources devoted to IRS enforcement programs, at this time we do not have sufficient data to estimate with certainty how much of the total gap could reasonably be collected on a cost-effective basis. It should be clear, however, that the total amount of potential revenues represented by the gross tax gap cannot be realized without improvements in voluntary compliance on the part of taxpayers.

TAX GAP

In 1988, IRS estimated that the gross tax gap (the amount of income taxes that are owed but not voluntarily paid) was $84.9 billion in 1987 and projected it would reach $113.7 billion in 1992. IRS estimated that individuals who did not report all of their income and corporations accounted for most of the tax gap--$48.3 billion and $21.4 billion, respectively.

Mr. Roybal: One step that could help IRS close the tax gap would be a document matching program for business taxpayers. What progress has IRS made in implementing such a program?

Mr. Goldberg: An employer identification number/social security number (EIN/SSN) cross reference file has been created and was tested during calendar year 1988. Test results were successful. So, starting with tax year 1988 returns, transactions from information returns reflecting a sole proprietor's EIN will be included in the document matching program for individuals.

For corporations, an action plan for a feasibility study of a business information return matching program was forwarded to Congressman Barnard on September 1, 1987. Meanwhile, two benefit studies of a document matching program geared to corporations at or above $10 million in assets and under $10 million are underway and should be completed by December 1990. A separate study to estimate potential costs to develop, implement, and operate such a program is also underway and will be completed by December 1990.

Results of these studies will be evaluated and a final report prepared early in 1991.

BUDGET PRIORITIES

Mr. Hoyer: Glad that the budget has finally been increased for the IRS. As you know, this subcommittee has been the defender of the IRS in the budget process and has worked hard to maintain adequate funding levels.

It is my understanding that the processing returns category is essentially the gateway to the entire process. If it falls behind, so does all the rest, and reports of lost returns, etc. in the press tends to focus attention on this inefficiency. The budget has major increases in the enforcement end, which is good, because that is where the cheaters are caught and money is found. But I am concerned that the increase for processing is so small, only 36 positions, that we are setting up one heck of a choke point...

NTEU employees were in yesterday and they described absolute horrors in the processing end. They spoke of employees who if their electric letter openers worked could process twice as much mail, but they haven't worked for over a year...

Why only 36 positions? Will this create a chokepoint?

Mr. Goldberg: The 36 full time equivalent (FTE) increase shown in the Processing Tax Returns and Assistance Appropriation is a net increase, and not a gross increase. This figure represents resource changes to both returns processing functions and taxpayer service functions.

A major increase, 398 FTE, is primarily for the IRS Service Centers to assist in the collection of additional tax revenue through monitoring dependency, mortgage tax credit, and non-custodial dependency compliance. An additional 217 FTE increase is also included for resources to process an estimated 1.7 million more primary tax returns and to annualize the Fiscal Year 1990 Revenue Initiatives. Total increases to the Appropriation are 615 FTE.

Offsetting reductions to the Returns Processing and Revenue Accounting activity and the Taxpayer Service activity total 579 FTE. These were made to cover ADP reapplications, A-76 cost savings, program reductions to absorb pay increases, and a transfer to the Department of Treasury for Inspector General work.

The 36 net FTE increase will not create a choke point in the Service Centers since resources to process additional tax returns and work revenue initiatives projects will be earmarked for these needs.

Questions Submitted by Mr. Hoyer

II) IRS Consolidation

Mr. Hoyer:

Where are we on plans for the consolidation?

Mr. Goldberg:

We completed a study that produced recommendations stating which organizations were to be located at the consolidated site and which were to remain at the Main IRS Building at 1111 Constitution Avenue, N.W. Included with those recommendations were the general space needs for each organization. This information was included in the prospectus for review by the Public Works Committee. I understand that the prospectus was approved by the Office of Management and Budget in February and should be forwarded soon to the Public Works Committee for review and approval. We will soon begin the process of developing more detailed space requirements. This work should take approximately six to eight months to complete and will form the basis for the solicitation for offers from developers.

Mr. Hoyer:

GSA has advertised for expressions of interest for sites. When will GSA and IRS be able to actually advertise for space and begin the consolidation? What is the timetable for action and could you provide for the record such a timetable from this point to the completion of the project?

Mr. Goldberg:

IRS should be able to provide GSA with the necessary information to advertise for the consolidated site after the detailed space requirements are developed. However, any advertisement is dependent upon Congressional approval of the prospectus; and, since there is a very good chance that the building will be constructed, the consolidation will probably not occur in less than four or five years. We can provide a timetable but as our next steps are dependent upon Public Works Committee approval of the prospectus, it may be premature to submit a schedule at this time.

Mr Hoyer:

Do you foresee any problems with the consolidation?

Questions Submitted by Mr. Hoyer

Mr. Goldberg:

The Service does foresee potential problems with a large-scale employee relocation to suburban Maryland. However, the Service is committed to taking the steps necessary to minimize the impact that a move to suburban Maryland may have on our employees' professional as well as personal lives.

There are few, if any, real problems with consolidation. We believe that the IRS National Office will greatly benefit from consolidating from 19 locations to two. The Service is committed to selecting a site which will provide a modern, state-of-the-art working environment; one that will meet the requirements of our people as well as our technological needs.

Mr. Hoyer:

What effort will be made to involve employees and their representatives in developing requirements for the space? I have been approached by employees who are concerned about the availability of parking, day care, credit union space, etc. I share your desire to make this a first class federal facility, and would like to work with you and the union and employees to see that all interests are addressed. How can we proceed with this goal?

Mr. Goldberg:

We are sensitive that a consolidation of this magnitude will have significant impact on our employees and their families. We are committed to analyzing any means which may potentially reduce the adverse impact of the move on our employees. The Service appreciates your willingness to work with us on this matter.

The Service has entered discussions with the National Treasury Employees Union. We are regularly sharing information and soliciting their comments. We anticipate that we will soon enter into formal negotiations with the union. Further, we anticipate that we will be interviewing employees and asking them to respond to questionnaires to assure that we are adequately informed of their needs and desires. Each of the items you specifically stated (parking, day care, credit union, etc.) as well as other items, has been incorporated into our planning process.

Problems

Mr. Hoyer: Some employees from the Brookhaven Service Center met with staff and explained that they, along with other centers, are demoralized over the accumulation of small things:

For example, there are twenty terminals and 12 chairs...people are forced to scour other areas and swipe chairs from people's desks while they are away from them.

There is no photocopy paper or pencils.

In fact, at this center, the "photocopy center" which photocopies returns for taxpayers, has no photocopier!

What can be done to improve this situation?

Mr. Goldberg: There are 5,499 chairs in the Brookhaven Service Center excluding chairs located in the cafeteria, canteen and training rooms. Currently there are 3,143 employees on the day shift and 1,400 employees on the night shift. On peak day shifts there are 3,288 employees in the center. It is believed that the number of chairs is sufficient for the available staff.

There are 1,149 cases of photocopy paper in stock in the Brookhaven Service Center. No outage or shortage of paper exists. Paper is issued on an as needed basis, not stacked at photocopy machines, to assure against waste. In 1989, 4,500 dozen pencils were ordered. The Center has never run out of pencils.

Within the Center there are 200 organizational units. It would not be cost beneficial to lease a photocopier for each unit, therefore, machines are shared. There has been no diminution of service to our customers, the taxpayers, by a machine not being located directly in this area.

DEFERRAL LEVELS

Mr. Hoyer: Have "tolerance levels" (levels under which no action is taken) increased in the past four years? How do they compare with ten years ago?

Mr. Goldberg: In an effort to make the most efficient use of our resources, we occasionally evaluate the types of processing that delinquent accounts should receive. We know from our studies that it is not cost efficient to assign every case to a district office for telephone or personal contact. These cases are deferred from going to Taxpayer Delinquent Account (TDA) status if they are not resolved by sending notices from the service centers.

The majority of deferred cases are either full paid or reactivated. A case is reactivated when the combination of two or more tax liabilities exceeds the deferral level.

Deferral levels were last changed in May, 1985, when the level for individual accounts was doubled. The deferral level for business accounts was increased 60%. The exact levels are not public information. Of course we would be happy to discuss the deferral level in detail with you or your staff.

In addition to the use of deferral levels, the Resources and Workload Management System (RWMS) was implemented by Collection in 1986. Under RWMS, cases are assigned a score by means of a formula that computes the projected yield of an account--the higher the projected yield, the higher the RWMS score. Scores are assigned to Taxpayer Delinquent Account (TDA) and Taxpayer Delinquency Investigation (TDI) modules after notice processing is completed (generally, a module consists of one tax period).

The RWMS score of a case differs from the dollar amount in that the RWMS score is the estimated net yield for that case as

computed by the RWMS scoring methodology, while the dollar amount is the actual balance due. The score could be lower or higher than the dollar amount depending on the type of case; for example, the estimate of yield for BMF trust fund delinquencies is weighted to account for compliance concerns by multiplying the estimate of yield by 1.1, which boosts the estimate by 10 percent. We would be happy to dicuss the scoring methodology in detail with you or your staff.

In conjunction with RWMS, target inventory levels for revenue officers were established in 1986. Each district has a target inventory range for GS-9, GS-11 and GS-12 revenue officers based on what was considered manageable for that district. Each district controls issuances to revenue officers in the Collection Field function (CFf) by establishing a district RWMS cut-off score. Accounts with entity scores above the cut-off will be issued to CFf if not resolved in the Automated Collection System (ACS); accounts with entity scores below the cut-off will remain in the RWMS Queue, which resides on the Integrated Data Retrieval System (IDRS). Cases will remain in the Queue until either the district cut-off score is lowered, the collection statute expires or additional modules cause the entity score to be raised above cut-off score. Cases may also be manually requested from the Queue if necessary. Certain cases are issued directly to CFf instead of ACS due to compliance considerations or case complexity. In addition, ACS will issue certain cases that are below the cut-off score directly to CFf if they cannot resolve them.

RWMS impacts the Accounts Receivable Delinquent Inventory (ARDI) by focusing limited field resources on cases deemed to have the greatest potential yield. In the last analysis of RWMS as of March FY 1989, total dollars in the Queue comprised only 9% of the total CFf and Queue inventory dollars. Cases in the Queue are generally not subject to active collection efforts. However, through March FY 1989, dollars collected and offset in the Queue totaled $65.8 million, an increase of 34.8% over

the $48.8 million collected the previous year.

CONSTITUENT COMPLAINTS

Mr. Hoyer: Constituents often complain that IRS employees will not identify themselves, which frustrates callers and reduces accountability. Obviously you do not want to compromise employees' safety - but why couldn't employees have identification numbers so that callers could record that number, and if a problem arises, the IRS will be able to identify who the person was contacting... Can we do this or something similar to it?

Mr. Goldberg: I will be happy to consider your proposal and to discuss it further with you or your staff at your convenience.

INFORMATION REPORTING PROGRAM

Income reporting program (SIC) is similar in concept to FINCEN, where a computer checks tax returns against other data submitted and spits out problems above a certain level. In the past, one letter was sent, and people usually complied, and it brought in many billions of dollars.

Mr. Hoyer: What has the commitment been over the past five years for IRP and what is it projected to be in FY 1991?

Mr. Goldberg: In terms of staffing, the amount devoted to IRP between 1985 and 1988 increased from about 4,500 staff-years to just over 7,000 staff-years. In FY 1989 IRP staffing dropped to 5,700 staff-years due to serious problems in other areas of the service. The follow-through effects of that reduction will also be reflected in the FY 1990 program level of about 5,400 staff-years. By FY 1991, we except IRP to return to its maximum productive level under current projections of almost 5,800 staff-years adjusted for the new budget structure.

At that level in 1991, we would review over 9 million discrepant returns in the Underreporter Program and contact 1.5 million taxpayers about apparent delinquent returns with combined net assessments after refunds of almost $3.3 billion.

Mr. Hoyer: If reductions have occurred, why have cuts been made in what appears to be an excellent program and revenue generator?

Mr. Goldberg: The IRP program is not an area we like to cut, but it does constitute a significant amount of discretion. That is, the work is not generated by a taxpayer coming in to us with a request for assistance or information, nor is it related to mandatory processing of tax returns, both of which must take priority over discretionary compliance programs.

We have been forced to resort to reductions in discretionary programs because of the effects on processing tax returns of sequestration and increased labor costs due to employee promotions,

within grade increases, agency contributions for health insurance and medicare, and the 1989 and 1990 pay raises. In addition, critical program needs for processing currency transaction reports and for tax forms distribution had to be met at the expense of revenue producing programs such as IRP.

20 Year Retirement

Mr. Hoyer: What is the Department's position on the 20 year retirement bill? What is the estimated cost of this bill to the Department? Will it improve the effectiveness of employees?

Answer: The Department's position reflects the effectiveness objective of the legislation, namely, achieving a young and physically vigorous workforce to address the demands of criminal law enforcement. Currently, no information supports the need for this type of workforce to meet the enforcement demands of tax delinquency laws. Treasury acknowledges recruitment and retention problems for revenue officers in some places, but these can be better addressed by emerging strategies such as locality-based pay formulas.

Cost issues, as restricted to IRS revenue officers, can be approached both narrowly and broadly. The estimated retirement funding cost of the House bill, as limited to revenue officers covered under the Civil Service Retirement System (CSRS), is an additional half cent contribution per dollar of payroll, or about $1.0M per year. This amount would gradually decline as CSRS personnel retired. There is no known estimate of the cost of the House bill to the Office of Personnel Management (OPM), wherein a substantial portion of annually paid-out CSRS retirement benefits are funded. We do know that benefits would start being paid out much earlier, but there are other actuarial issues.

The estimated retirement funding cost to IRS of the Senate bill, applying to revenue officers covered under both CSRS or the Federal Employees Retirement System (FERS), would be substantially greater. Besides the $1.0M annual IRS cost for CSRS revenue officers and the unmeasured OPM liability, there would be an added contribution of 12.4 cents per dollar of payroll, or about $8.5M per year, for FERS revenue officers. This would gradually increase as the number of FERS revenue officers increased.

Other cost issues depend on the legislation's final form, since it could require retroactive payments of the half cent contribution, into the CSRS trust fund, by both CSRS revenue officers and IRS. Complicated cost issues also emerge from the anticipated attrition of many revenue officers who have already achieved twenty years service. These could include intensive hiring and training costs, and accelerated tipping of the workforce into the costlier FERS category. An estimate of these costs would involve guesswork about potentially wide ranging variables. The revenue effectiveness of the IRS Collection program might also be temporarily weakened, depending on these same attrition and training issues.

ATTORNEY PROMOTION PLAN

Mr. Hoyer: It is my understanding that employers negotiated a contract to allow IRS lawyers to advance a grade a year from the GS-11 to the GS-14 level, if performance merited such increases. Main treasury killed this proposal. Why?

Mr. Goldberg: The Office of IRS Chief Counsel negotiated a provision in its term agreement which would have mandated promotions for attorneys each year, so long as their performance rating was "Fully successful." The term agreement was submitted to the Department of the Treasury for agency head review, pursuant to 5 U.S.C. 7114(c)(1). During the agency head review process, the Department declared the provision non-negotiable as it was contrary to law. Specifically, the Department found that the provision interfered with management's right to determine its organization from any source, pursuant to 5 U.S.C. 7106 (a)(2)(c).

Under current Departmental policy, the promotion of attorneys is discretionary. Although the routine time-in-grade for promotion from one level to another may be more than one year, IRS Chief Counsel attorneys' supervisors have the authority to recommend to the IRS Chief Counsel the advancement of lawyers in grade within one year. The Department asserted that the provision in question would have required management to make unlimited promotions, regardless of whether sufficient work at the next higher grade existed for the attorney to do. It would also have mandated a promotion regardless of whether the Office of Chief Counsel had the funds for the promotion. Thus, the Department found that the provision interfered with its right to determine its organization.

The Department also found that the provision interfered with its right to make selections or fill positions from any appropriate source. When an attorney is selected for a position in the excepted service at the Office of Chief Counsel, there is no expectation that the attorney will be automatically promoted to the next higher grade. Should management have need for an attorney's services at the next higher grade, the provision would have mandated the promotion of the Office of Chief Counsel attorney to the exclusion of considering candidates from other parts of the

Department or under affirmative action programs. Thus, the Department concluded that the provision also violated the right to make selections from any appropriate source, pursuant to 5 U.S.C. 7106(a)(2)(c).

The union has challenged the Department's non-negotiability findings and the matter is presently before the Federal Labor Relations Authority for resolution.

Mr. Hoyer: What is IRS' position on this proposal? Will it improve morale, recruitment and retention for the Chief Counsel? Does Treasury have the authority to implement the proposal?

Mr.Goldberg: IRS' position on the proposal is that it has been declared non-negotiable by the Department because it interferes with management's rights to determine its organization and to make selections from any appropriate source and, therefore, cannot be implemented as it would violate law. The disapproval of the provision should not have any adverse affect on morale, recruitment and retention. As previously noted, the promotion of attorneys is a discretionary matter, and management still retains the complete right to promote those employees it believes are deserving of promotion. This would include the promotion of attorneys in all grades at an accelerated rate if they have demonstrated the appropriate level of performance. The disapproval of the provision also provides IRS Chief Counsel with more flexibility in hiring, as it permits management to make a selection for promotion from any appropriate source. Because Treasury has found that the provision violates law, the provision cannot be implemented unless overturned on appeal.

TAX SYSTEMS MODERNIZATION

Mr. Hoyer: What is the status of the computer modernization program?

Mr. Goldberg: The IRS has made significant progress in the Information Systems Modernization program in the last year.

The IRS Systems Architecture analysis, which provide a "blueprint" for the Service's future information systems, completed the initial analysis of potential new ways of doing business in the future, and technical alternatives (hardware, software, telecommunications, etc.) for supporting them. A report of this analysis was published in September 1989, as scheduled, and presented to the user community within the IRS to ensure that programmatic and technical issues had been addressed. As a result of this review, a recommendation of the proposed Systems Architecture was presented to the Acting Chief Information Officer and his top executives in March 1990. This recommendation will be presented to the Information Systems Policy Board and Executive Committee for final approval in April 1990.

Further development of the recommended Systems Architecture is underway. We are currently developing a Design Master Plan that will describe a detailed approach to implement this architecture. It will define the major system/subsystem components and the accompanying projects that will be needed to implement these components. A transition plan, outlining the sequencing and implementation timeframes of these projects is also underway. We will be expanding the current tax systems architecture analysis to include integration of our administrative processing systems (training, facilities, finance, etc.). These activities will be completed at the end of FY90.

In addition to the progress on the systems architecture, the Service has made great strides in our ongoing systems design and development efforts. The On-Line Entity project, which is the first step in implementation of our Corporate Files On-Line initiative, is now operational in five service centers and will be implemented nationwide by the end of this year. OLE was implemented in the Memphis Service Center in

January 1990.

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In addition to these efforts, we have moved forward with a substantial number of systems acquisitions needed to support the modernization program. These include the Departmental Microcomputer Acquisition Contract (DMAC) and Treasury Multi-user Acquisition Contract (TMAC), which are nearing completion and contract award. The Request for Proposal for our Integration Support Contractor will be issued to the vendor community in the very near future. Other major procurements for our Service Center Support System, Corporate Systems Modernization, and the Document Processing System are in process.

1992 PROJECTED SYSTEM CRASH

Mr. Hoyer: Will the IRS be able to avoid the deadline of the projected system crash referred to in last year's hearing which was predicted for 1992? (1)

Mr. Goldberg: The major tax processing computers at each of the ten Service Centers are dual UNISYS 1100/84 systems. We project that these systems will provide sufficient capacity through 1994 with the implementation of a number of workload management and processing efficiency initiatives. Future capacity needs on these systems will be provided through modernization initiatives.

Initiatives are being undertaken to ensure capacity is sufficient through 1994. The goals of these initiatives include the spreading of tax processing workload more evenly among the Service Centers so that the largest Center does not process more than 11.5 percent of national workload. Additionally, the Data Base Quality Improvement Project will reduce Taxpayer Information File (TIF) size through analysis and retention criteria.

(1) A 1986 GAO report identified a capacity gap from mid-1992 until the redesigned tax system implementation in 1994. The redesigned system was originally scheduled for 1992, but in 1987 the Service revised the implementation date to 1994.

In the Fall of 1989, GAO notified us that they were satisfied with our approach and conclusions:

- Capacity through 1992 with the quantified initiatives
- Initiatives identified and available for execution by Agency information system executives allowing for capacity through 1994.

Computer Modernization Program

Mr. Hoyer: For the record, please provide on a fiscal year basis, how much has been appropriated and spent for each of the past five years, and projected expenditures for this and future years until the projects are completed. This chart should show the total costs of the entire computer modernization program.

Mr. Goldberg: Below is a chart reflecting appropriated funds for Tax Systems Modernization as well as past, current and future expenditures.

	FY 1988 & Prior	FY 1989	FY 1990	FY 1991	FY 1992 & Beyond
Appropriated	$91,723	$85,749	$159,652		
Expenditures	$77,396	$79,386	$157,598	$247,878	$5,313,296*

*NOTE: Amounts for the years FY 1992 and beyond reflect just the current definition of Tax System Modernization projects. Please note that it is anticipated that other projects will be added to this grouping in future years. The expenditure amount for FY 1990 reflects the amount initially appropriated less the sequester under P.L. 99-177.

TAX SYSTEMS MODERNIZATION

Mr. Hoyer: What is the status of the IRS' Automatic Data Processing Support and Services (ADPSS) contract awarded to OAO Corporation?

Mr. Goldberg: Currently, OAO is actively working on one task order and a total of twenty (20) other task orders are in the review and/or approval process. The projected dollar value of these 21 tasks is over $15 million.

TAX SYSTEMS MODERNIZATION

Mr. Hoyer: It is my understanding that the contract has a DPA of $500 million and I have been told that the work to be performed is critical to the overall computer modernization effort we have discussed for years. Yet, after 8 months when the contract was awarded, it is my understanding that only $240,000 of work has been awarded.

Why is this happening since both the General Service's Board of contract Appeals and the U.S. Court of Appeals denied requests for a stay of performance filed by protesting firms?

Mr. Goldberg: The ADPSS contract was acquired solely to provide the Internal Revenue Service and other Treasury Bureaus a vehicle for acquiring ADP support services on an as needed basis over the next seven years. The services of this contract will be made available to supplement in-house ADP resources, to provide additional support during peak workload periods, and to provide immediate expertise in the latest ADP technologies to both existing programs within the Service and to the initiatives associated with the Information Systems Modernization (ISM) effort.

Although statements of work (SOWs) were submitted for processing on the ADPSS contract as early as November 1989, these SOWs could not be forwarded to the OAO Corporation until December 5, 1989, which is when the IRS was informed by legal counsel to proceed with contract administration.

A total of 21 tasks are currently being processed to utilize this contract. These tasks have a projected dollar value of over $15 million.

TAX SYSTEMS MODERNIZATION

Mr. Hoyer: How critical can this project be if work is progressing so slowly? Why should this subcommittee consider additional funding for this program when the IRS is unable to spend money already provided?

Mr. Goldberg: Depending on its scope, there is a 6-8 week processing period for each SOW, which involves the clearance of any offices and individuals. These clearances are to ensure that the IRS effectively utilizes Government funds. also, because of the nature and complexity of some of our tasks, the Service has to carefully assess the requested requirements to ensure that they meet the objectives of the Service.

Many of the tasks that the ADPSS contract will support will be related to the transition of software applications from our current operating environment to the new systems being acquired as part of the ISM effort. Many of these tasks cannot be initiated until after scheduled phases of the new systems operating environment have been acquired. To fully implement the modernization effort, the IRS will continue to need the support and funding allocations identified with each phase (or aspect) of the overall modernization effort.

TAX SYSTEMS MODERNIZATION

Mr. Hoyer: I have also been informed that the IRS is planning to issue a request for procurement for another $500 million "system engineering and integration contract" in the next 6-8 weeks. It seems to me that the existing ADPSS contract of $500 million can accomplish the same goal. Two of the best systems integrators in the country, Perot Systems and Martin Marietta Data Systems, are part of the contract team which has already won the $500 million ADPSS contract.

Why is the IRS issuing another $500 million procurement when you have only spent $240,000 of the previous $500 million contract?

Mr. Goldberg: The procurement you are referring to is a planned solicitation to provide a contract vehicle for integration support services.

The ADPSS contract is unrelated to the proposed integration support contract. The delegated procurement authority approval levels for the two contracts are not commitments for funding. In the case of ADPSS, the minimum commitment of the Government is to fund $10 million in services, not $500 million. The minimum commitments for the Integration Support Contract will be revealed when the Request for Proposal for that contract is issued.

The purpose and functions of the proposed Integration Support Contract (ISC) is distinct from the requirements being met by the ADPSS contract. The ADPSS contract is a "general purpose" contract that will support many aspects of a modernization effort.

However, the planned ISC procurement will provide the Service with a "specialized" contract vehicle to obtain a highly skilled "cadre" of technical support personnel that will assist the service with integrating all phases and subsystems of the modernization effort.

Mr. Hoyer: Can you use the existing contract, which has already been completed, to accomplish the same work?

Mr. Goldberg: No. The requirements of these two solicitations are distinct. They both will provide the Service with skilled support personnel to perform ADP related tasks. However, ADPSS will be used primarily for the development and/or maintenance of software applications; the planned ISD contract will be used specifically for systems integration. The contracts contain substantially different requirements, require different skill levels and have significantly different pricing structure based upon their intended uses.

BETTER MANAGEMENT OF GROWTH IN RESOURCES

Mr. Lowery: Your budget has grown from $3.8 billion in Fiscal Year 1986 to $5.5 billion in FY 1990. At the same time, your workload and operating expenses have also increased. Yet, it can be argued that your resources were not always applied in the best manner. Where have mistakes been made and how can we assure they won't happen again? Why were personnel numbers and costs underestimated?

Mr. Goldberg: Yes, it is true that mistakes have been made. It is clear that we have not managed the growth in our resources as well as we would have liked. However, we have recently made progress on a number of fronts. I would like to update you on some of the changes we intend to institute. First, we have created the position of Chief Financial Officer at the Deputy Commissioner level and are establishing the Office of the Assistant Commissioner (Finance)/ Controller. Second, we will change the way we formulate and execute our budgets by instituting internal budget "hearings" prior to each of our budget submissions and holding plan managers (Regional Commissioners, Assistant Commissioners, and the like) accountable for their financial operations. Third, we have developed a new budget account format to better align our accounts and to provide a greater degree of accountability. In addition to these three changes, we are instituting a number of management initiatives to curb unnecessary growth in the areas of payroll and space-related costs, while fully protecting the rights of our employees.

ATTRACTING QUALITY EMPLOYEES

Mr. Lowery: How well will the funds requested for FY 1991 enable you to obtain the type of quality people you need for the complex work of the IRS? Is there any measure of your ability to compete with the private sector? How long will past shortfalls continue to affect operations?

Mr. Goldberg: The IRS has been and continues to be able to attract qualified, motivated employees. However, we have experienced some trouble in retaining these people. It has been particularly difficult for the Federal government to compete with the prevailing salary rates of private sector employees in high-cost areas of the country. For this reason, we see the need to move toward locality based pay to compensate for this inequity. While our FY 1991 budget does not include localilty based pay, let me assure you that I am fully committed to pursuing this option so that we will be able to retain the quality workers we need to carry out our mission.

We are hopeful that passage of our FY 1991 budget will get us on a strong financial course which, in turn, will have a positive effect on our operations.

TAXPAYER SERVICE

Mr. Lowery: In your testimony you state that the FY 1991 Budget will fund an 80 percent level of taxpayer service. What does this mean? What level of service have you been able to provide over the past two years?

Mr. Goldberg: Level of Service is the estimated percentage of individual callers that actually reach an IRS assistor compared to the universe of callers attempting to contact IRS. This closely approximates the number of callers that get through to us on their first or second try.

We estimate that an 84.5 percent level of service was provided in FY 1988 and a 79.6 percent level of service in FY 1989. During FY 1990, as of March 24, our level of service is 71.9.

IMPLEMENTING THE TAXPAYERS'BILL OF RIGHTS

Mr. Lowery: Are you taking steps to insure that the "Taxpayer's Bill of Rights" is actually put into practice?

Mr. Goldberg: Yes. The Service has undertaken a number of actions to insure that both the letter and the spirit of the Bill of Rights are observed by all IRS employees. These actions include:

- developing a Service-wide implementation plan that included 145 actions necessary to implement the bill's 22 provisions. The plan's major actions included informing taxpayers of their rights; strengthening the Problem Resolution Program (PRP) by authorizing the Taxpayer Oumbudsman to issue Taxpayer Assistance Orders; ensuring fair and impartial enforcement of the tax laws; improving the quality of customer service to taxpayers, in part by extensive training programs for all IRS personnel on the bill's provisions; and improving guidance to taxpayers on tax administration matters.
- monitoring the implementation plan periodically
- creating a new position of Assistant Commissioner (Taxpayer Services) as required by the bill
- initiating an on-line review of the overall implementation effort by the Internal Audit function

We believe these actions collectively have allowed IRS to implement the Bill of Rights effectively and efficiently. We regard the bill as positive for taxpayers and for the Service's administration of the tax system.

TAXPAYER OMBUDSMAN

Mr. Lowery: How well is the Taxpayer Ombudsman working?

Mr. Goldberg: The Taxpayer Ombudsman heads the Service's Problem Resolution Program (PRP), which was first established in 1977. This long-standing program has, in most cases, been found to be very successful in resolving taxpayer problems and complaints. While the majority of PRP cases are handled effectively and expeditiously, we do not always achieve the desired results and are continually striving to improve the program.

The Taxpayer Ombudsman, who serves on my staff as an Assistant to the Commissioner, is the principal advocate for taxpayers within the IRS, representing their interest and concerns during IRS program and policy deliberations and providing them a platform to communicate the varied problems encountered with the tax laws, related regulations and internal procedures.

Each IRS district, service center and regional office has a Problem Resolution Officer (PRO), who reports to the Director or Regional Commissioner. In resolving problems and protecting taxpayer rights, PROs have authority to intervene to assure IRS actions are correct and appropriate. PROs publicize PRP through the media and meet regularly with tax practitioner associations, congressional staffs, and outside groups to promote and explain the program. During FY 1989, over 400,000 taxpayers received PRP assistance in solving their tax problems. The Problem Resolution Program also strives to prevent problems for taxpayers by uncovering and solving the root causes of problems that led taxpayers to seek PRP assistance.

Follow-up questionnaires are sent to a statistically valid sample of closed PRP cases to measure the effectiveness of the program. In FY 1989, 90 percent of the responses received to this questionnaire expressed satisfaction with PRP. This favorably compares with other public and private consumer complaint handling programs. We are currently working to improve this sampling process in order to obtain more specific feedback from the taxpayers assisted.

The Omnibus Taxpayer Bill of Rights included a provision, effective January 1, 1989, for the Taxpayer Ombudsman or his or her designee, to issue a Taxpayer Assistance Order (TAO) when a taxpayer

is suffering or about to suffer a significant hardship as a result of the manner in which the internal revenue laws are being administered. The Taxpayer Ombudsman has delegated this authority to Problem Resolution Officers. Taxpayers can apply for this assistance by filing an Application for Taxpayer Assistance Order (ATAO), or one may be prepared by an IRS employee to request that an account be reviewed because an enforcement action or lack of action has caused or is about to cause a significant hardship.

When an ATAO is received and significant hardship is shown, the ATAO is sent to the responsible function so that the case can be reviewed. During this review, any pending enforcement action is suspended. If the reviewing function believes that the initial action is proper but the PRO disagrees, the PRO issues a Taxpayer Assistance Order, directing the function to cease or reverse its actions.

During FY 1989, PRP processed over 12,000 Applications for Taxpayer Assistance Orders (ATAOs); relief was granted or the taxpayer's problem was resolved in the majority of cases. The TAO was designed to require a function to provide relief from hardship when the PRO determines the relief should be given, but the function does not agree. In all but 9 ATAO cases received to date, the PRO and functional management reached agreement on whether and what relief was granted.

ATAOs are a new program and we are constantly monitoring the results and working to improve our procedures. We have received very little feedback from ATAO applicants. Our Internal Audit personnel held interviews with several taxpayers who had filed ATAOs and found these applicants to be satisfied with the way their problems were handled. However, a few complaints have been received from taxpayers on the way their ATAOs were handled. We have looked into each of these complaints to determine whether the actions on these individual cases should be reconsidered and whether changes are needed in our procedures or training.

Mr. Lowery: Have there been many complaints about this grievance procedure?

Mr. Goldberg: While our follow-up questionnaires have consistently shown a high level of satisfaction with the Problem Resolution Program, as mentioned above, we do receive some complaints about how an individual case has been handled. Sometimes the complaint is caused because the relief the taxpayer is seeking cannot be granted because of legal constraints. In other situations, the case was mishandled. We are always concerned by such complaints and use this feedback to refine and improve our procedures. The Taxpayer Ombudsman has publicly sought direct feedback from taxpayers and tax practitioners and acts upon all complaints he receives.

Mr. Lowery: Are there any methods for reviewing Ombudsman decisions?

Mr. Goldberg: Field level TAOs may be modified or rescinded by a District, Service or Compliance Center Director or Assistant Director for areas under their jurisdiction, a Regional Director of Appeals for cases in the Appeals process under their jurisdiction, a Regional Commissioner, the Assistant Commissioner (International), or the Taxpayer Ombudsman. A TAO issued by the Taxpayer Ombudsman can only be rescinded by the Senior Deputy Commissioner, the Commissioner, or the Taxpayer Ombudsman. Once a TAO has been issued, the receiving function must carry it out or request a review of the order by the appropriate executive. While there is no formal appeals process for ATAOs or PRP cases, whenever any new information or evidence becomes available, it is reviewed and, if appropriate, the decision changed.

Our Internal Audit function conducts periodic reviews of the Problem Resolution Program and just completed a review of the implementation of the new ATAO procedures.

Questions Submitted by Mr. Lowery

Mr. Lowery: What new methods are you using to improve the filing procedures? How does electronic filing work?

Mr. Goldberg: Electronic filing substitutes tax return data transmitted over telephone lines for paper tax returns. Electronic filing helps relieve the service centers of extensive labor intensive front end handling of returns in the "pipeline". Electronic filing automates the paper handling steps, which is the process that manually inputs the data from the paper return. Electronic filing greatly speeds up the processing of the return and also contributes to the accuracy of the electronic return by eliminating the paper return with its error prone manual input of data. This year electronic filing of individual returns with refunds is available nationwide. Over 3 million returns have been filed electronically by the middle of March.

Proposed Postal Rate Increase

Mr. Lowery: What impact will the proposed postal rate increase have on your operations?

Mr. Goldberg: The proposed postal rate increase will cost the Service an additional $20.5 million annually. The effective date of the rate change will determine the actual impact that the increase will have on the Service in 1991. The increase, if implemented after January 1, 1991, will not impact on the mailing of tax packages because these are mailed in November and December. A substantial impact could be felt in the mailing of tax notices. To fund this mandatory increase, resources must be redirected from less essential non-staffing support areas.

IRS ANTI-DRUG EFFORTS

Mr. Lowery: I recently spoke with Peter Nunez, the new Treasury Assistant Secretary for Enforcement, and he emphasized the importance of IRS auditors and investigators in cracking drug trafficking cases. What personnel are you allocating for this effort?

Mr. Goldberg: The Internal Revenue Service (IRS) provides a valuable contribution to the Administration's war on drugs. During Fiscal Year 1990, the IRS plans to allocate over 1700 positions to the anti-drug initiative in this country. Although each enforcement function of the IRS actively participates in the detection and investigation of narcotics-related crimes, the Criminal Investigation Division (CID) provides most of this staffing with 1509 average positions. Criminal Investigation allocates over 25 percent of its total resources to the investigation of narcotics and money laundering violations. Through this enforcement activity the IRS is able to identify the organizational structure of an entire drug trafficking operation, identify monies and assets for seizure, and document violations of currency laws.

The compliance functions of the IRS work in concert to combat narcotics-related activity. The enforcement personnel of the IRS identify those involved in illegal drug and money laundering activities. The provisions of the Internal Revenue Code, the Bank Secrecy Act and United States Code are then used to bring these individuals to justice and to remove the profit form their criminal activity. These enforcement actions are normally coordinated with other Federal, State or local agencies in multi-agency task forces which require the expertise of the IRS in financial-type investigations.

January 1990 Pay Increase

Mr. Early: What is the total cost of the January 1990 pay raise for the IRS and what is the cost of the pay raise for senior executives?

Mr. Goldberg: The cost in fiscal year 1990 for the January 1990 pay raise is $103 million. The full annual cost of the increase is $137 million. The cost of the pay raise for senior executives in fiscal year 1991 is $3.8 million. The full annual cost of this increase is $5.1 million.

Sequestration

Mr. Early: What is the amount of the sequester for the IRS?

Mr. Goldberg: The sequester amount for the Internal Revenue Service is $46.2 million.

FY 1990 PAY RAISE

Mr. Early: How will the IRS absorb the costs of the 1990 pay raise? What program areas will be affected and what impact will these reductions have on these programs?

Will these reductions have any effect on staffing levels or the length of time positions must remain vacant?

Mr. Goldberg: The FY 1990 pay raise is one in a series of unfunded budgetary items the IRS faces in FY 1990. Other items include: increased employee benefits; the impact of sequestration; employee promotions and upgrading; and the need for additional resources to distribute tax forms and instructions and to process currency transaction reports.

The Service has taken steps to mitigate the impact of the budgetary shortfall created by these unfunded liabilities. Less essential spending for supporting services and information systems has been reduced, and hiring has been limited to key job occupations and specialties. IRS has also delayed the startup of the FY 1990 revenue initiatives. Processing tax returns and issuing refunds timely were not affected.

The hiring freeze instituted in October 1988 is expected to be selectively lifted as the fiscal year proceeds. Since the freeze limits hiring to key job categories only, we anticipate that a decrease in staffing levels will result and that some positions will remain vacant for longer periods of time than usual.

POSSIBLE BUDGET SHORTFALL, FY 1991

Mr. Early: Do you anticipate any other shortfalls which would require you to reallocate resources?

Mr. Goldberg: Our budget request meets most cost factors we now foresee, as well as providing for substantial improvements in tax administration. Compared to budget proposals for FY 1989 and FY 1990, the budget for FY 1991 does address many of the deficiencies we have encountered in recent years. The additional funds requested, $635 million, together with structural improvements we are now implementing, will cover most cost items that we can reasonably predict.

We are facing between $100 and $150 million in potential increased costs for:

- ADP and information technology needs ($30 to $50 million);
- space rental payments to GSA ($20 million);
- special salary rates for employees in hard-to-fill occupations and entry-level positions ($20 million);
- locality pay differentials for the Los Angeles, San Francisco and New York metropolitan areas ($20 to $40 million); and
- prospective postal rate increase ($20 to $25 million on an annual basis).

The Service is already absorbing $58 million, representing fifty percent of a proposed 3.5 percent pay raise to be effective January 1991, and the lifting of the GS-10, step 1 limit on administratively uncontrollable overtime for IRS law enforcement officers.

Full Year Cost of the January 1990 Pay Increase

Mr. Early: What is the full year cost of the FY 1990 pay raise in FY 1991? How much is included in your budget request for this purpose and how much are you being required to absorb?

Mr. Goldberg: The full year cost of the January 1990 pay raise is $137 million. Included in our fiscal year 1991 budget request is $34 million which represents the annualization of the January 1990 pay raise. During fiscal year 1990 the Service had to absorb $103 million through a reduction of staffing and in related support areas.

TAX SYSTEMS MODERNIZATION

Mr. Early: What is the status of the Agency's automation modernization efforts?

Mr. Goldberg: The IRS has made significant progress in the Information Systems Modernization program in the last year.

The IRS Systems Architecture analysis, which provide a "blueprint" for the Service's future information systems, completed the initial analysis of potential new ways of doing business in the future, and technical alternatives (hardware, software, telecommunications, etc.) for supporting them. A report of this analysis was published in September 1989, as scheduled, and presented to the user community withih the IRS to ensure that programmatic and technical issues had been addressed. As a result of this review, a recommendation of the proposed Systems Architecture was presented to the Acting Chief Information Officer and his top executives in March 1990. This recommendation will be presented to the Information Systems Policy Board and Executive Committee for final approval in April 1990.

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TAX SYSTEMS MODERNIZATION

Mr. Early: Has the IRS developed a master plan for ADP modernization?

Mr. Goldberg: We are currently developing the Design Master Plan for IRS Systems Modernization and will have a draft by June 30, 1990. The final design Master Plan, which will be completed by September 30, will describe a detailed approach to implementing the IRS Systems Architecture. It will identify the major systems and components, including security systems, that must be developed in order to fully implement IRS Systems Modernization. It will include an integrated schedule of key milestones; an assessment of the development strategy and associated risks; a description of how our current systems and initiatives fit into the modernization effort and a transition plan for moving from our current way of doing business to the future way; and resource requirements including a year-by-year economic analysis for the implementation schedule.

TAX SYSTEMS MODERNIZATION

Mr. Early: Would you summarize the major phases of and the timetable for the Tax Systems Modernization Plan?

Mr. Goldberg: There are six major phases of our Information Systems Modernization plan.

The first phase is the development of a Systems Architecture, or blueprint which identifies the new way IRS will do business with modernized information systems. The draft of that Systems Architecture, which was completed in October of 1989, also describes at a high level, the requirement of future users of the new system. It also describes alternative technical configurations of hardware and software that would be required to support our new way of doing business, and provides some early costing.

Second is the refining of these three technical alternatives and selecting the Systems Architecture we will be working toward. This analysis was just completed in March 1990, and a recommendation will be made to me and our Information Systems Policy Board and Executive Committee in early April.

The third phase is to validate and expand our user requirements to be certain we are developing a system which will meet the needs of IRS users, taxpayers, other government organization, tax practitioners and others with whom IRS does business. Recognizing that this is a continuing process, we plan to update the Systems Architecture annually.

The fourth step is to develop a Design Master Plan by September 30, 1990 which will describe a detailed approach to implementing the IRS Systems Architecture. It will identify the major systems and components, including security systems, that must be developed in order to fully implement IRS Systems Modernization. it will include an integrated schedule of key milestones; an assessment of the development strategy and associated risks; a description of how our current systems and initiatives fit into the modernization effort and a transition plan for moving from our current way of doing business to the future way; and resource requirements including a year-by-year economic analysis for the

implementation schedule.

During the fifth stage, beginning in FY 1991, detailed project planning, including detailed systems design, development and implementation plans, will be done for each of the projects identified as part of Modernization. While we know this phase will continue for a number of years, the specific timing for these activities will be identified in September the Design Master Plan.

The Sixth step is to accomplish the support activities needed to make the Systems Modernization a reality. These include acquiring the space and hardware needed and redesigning the jobs and training our employees will need to work in a new environment. We have already begun identifying the steps and actions necessary to be ready to implement the Systems Architecture.

After completing all these steps, we will have achieved IRS Systems Modernization.

TAX SYSTEMS MODERNIZATION

Mr. Early: Can you give us an estimate of the total cost of this project?

Mr. Goldberg: Our preliminary estimate of the cost of this project is approximately $6 billion. This estimate includes only the acquisition and one year operation and maintenance costs of the new system in 1998. We can provide full life cycle costing to you after September 30, when we complete the Design Master Plan.

Information Systems

Mr. Early: How much is included in your FY 91 budget request for ADP modernization and what was your submission to the Department? What was the Department's request to OMB?

-What was disallowed at the Department Level?

-What was disallowed at the OMB Level?

Mr. Goldberg: The FY 91 budget request to Congress for ADP Information Systems totals 8,088 FTE and $993.9 million. Our submission to the Treasury Department in May, 1989, totaled 9,257 FTE and $1.439 billion. We submitted a request of 8,726 FTE and $1.183 billion to the Office of Management and Budget.

The Department reduced the requested increase by 531 FTE and $256 million, which included a reduction to a portion of the proposed increase for the Integrated Collection System; Integrated Telecommunication System; Real Time Communication System and a request for resources to fund the replacement of laptop computers for Examination personnel.

The Office of Management and Budget reduced our request by 193 FTE and $88.3 million, which included a reduction to a proposed increase for the Automated Taxpayer Service System; Counsel Automated Systems Environment; and the balance of the requested increase for the Real Time Communication System.

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Tax Systems Modernization

Mr. Early: Please provide for the record the information requested in the previous question for the Tax Systems Modernization projects?

Mr. Goldberg: The FY 91 budget request to Congress for Tax Systems Modernization totals 1,353 FTE and $247.9 million. Our submission to the Treasury Department in May, 1989, totaled 1,647 FTE and $355.4 million. We submitted a request of 1,546 FTE and $286.3 million to the Office of Management and Budget.

The Department reduced the requested increase by 101 FTE and $69.1 million, which included resources to fund nationwide implementation of the Automated Underreporter Program; a staff increase request for the Systems Integration and Long Term Design and a portion of the Corporate Systems/Mirror Imaging project.

The Office of Management and Budget reduced our request by 193 FTE and $38.4 million, which represented the balance of the requested increase for the Corporate Systems/Mirror Imaging Project.

Information Systems Prioritization

Mr. Early: Is the Tax Systems Modernization Project your highest priority in the area of Information Systems modernization? If not, why not?

Mr. Goldberg: Tax Systems Modernization projects are the highest priority in the area of Information Systems.

HIGHEST PRIORITIES IF ADDITIONAL FUNDS MADE AVAILABLE

Mr. Early: Of the items disallowed in the IRS request for ADP modernization, what would be your highest priorities if additional funds were available and briefly explain why?

Mr. Goldberg: The Service's commitment to tax systems modernization ranks as the number one priority in our request for ADP modernization. To achieve a smooth transition to modernization of the system, any additional funds would be used for initiatives that sustain and improve current tax processing and enhance voluntary compliance and taxpayer service.

TAX SYSTEMS MODERNIZATION

Mr. Early: To what extent could the Tax Systems Modernization Project be accelerated if additional funds were available?

Mr. Goldberg: Considering the size and complexity of this undertaking, the Service must ensure the proper balance between the current modernization schedule against the risks involved in accelerating that schedule. To speed the process would increase the risks to taxpayers and the IRS.

The IRS is installing new systems in a modular manner over a ten year period with seven major acquisitions providing the basic support needed for TSM. Based on the timeframes delineated by the complicated acquisition process, the Service could not proceed any faster with modernization without risking the integrity of that process.

Another consideration is the ability of the IRS to move more rapidly into an automated environment. The modular implementation will provide the IRS and its personnel the chance to learn how to do business in a more modern fashion without disrupting the processing of tax returns.

Mr. Early: What is the current amount of uncollected revenues due the IRS?

Mr. Goldberg: As of February 1990, the figure is approximately $84.4 billion.

Mr. Early: How reliable or accurate do you consider that figure?

Mr. Goldberg: We believe the figure to be accurate as it relates to what has been assessed and notated on our Master File. There are conditions, however that give the impression that the figure is not reliable. An example of this is the 100% penalty program, where the same assessment is made against ALL Officials of a corporation when delinquent trust funds are involved. The Accounts Receivable inventory is also inflated to the degree that assessments are later reversed. This occurs when we correct errors made by taxpayers or by IRS, or when we abate penalties for reasonable cause or reverse an assessment in Appeals or Litigation.

Mr. Early: How much of that amount can be collected?

Mr. Goldberg: We have recently implemented a program to analyze our receivables that will allow us to estimate the collectabilitly over time of the inventory. Our initial indications are that over time we can reasonably be expected to collect somewhere around 40%. We will be refining our projection over the next few months.

Mr. Early: Recently, the IRS testified before another committee on this subject from news reports of that hearing, I gather that the IRS acknowledged, or indicated, that it really did not have a good "handle" on the amount of uncollected revenue, and did not think that a sizable portion of the amount owed was collectible. It was also reported that the ability of the IRS to collect accounts receivable was hampered because the agency did not have a good "handle" on when the statute of limitations expires on individual accounts. If true, this leave me with the impression that your accounts receivable are in some state of disarray. Would you comment on this. Is this accurate? If so, what steps is the IRS taking to address this problem?

Mr. Goldberg: This is not accurate. Our ability to collect taxes is not hampered because we do not know when the statute will expire on individuals. We are aware when the statute will expire. What does hamper us is such issues as: unable to locate taxpayer; taxpayers' inability to pay; training and retention of a skilled workforce. I commented in my statements before the Subcommittee on Oversight on February 20, 1990, that our Collection staffing has not kept pace with our increasing workload. The accounts receivable inventory grew by 108% from FY 1984 to FY 1989 ($31.9 billion to $66.5 billion) while Collection staffing grew 8.3% (16,620 staff years to 18,505 staff years).

We have taken steps to address these issues. We have focused on the impact that various actions would have in better managing our accounts receivable, and have set our priorities accordingly. A basic tenant of Quality Management is that 20 percent of the causes generate 80 percent of the problems, most of which are systemic. As in all such efforts, the best approach is to address a limited number of issues that are of vital importance.

To this end, we have identified four "Vital Few" management initiative areas: (1) management information, (2) large dollar accounts, (3) currently not collectable accounts, and (4) our processing systems. Let me assure you that we will make major improvements in these four areas and that, as a result, we will significantly improve our handling of accounts receivable by collecting more taxes due the Federal Government and by reducing the erroneous assessments that impose a burden on taxpayers and IRS alike.

Concerning staffing, the President's Budget for FY 1991 calls for approximately $50 million to add approximately 1,000 Collection personnel to our rolls. I want to emphasize that our FY 1991 budget is structured to assure that the call for increases in Collection staffing will in fact take place. I also want to emphasize that this

represents the growth we can prudently manage and absorb during 1991. No more, no less. Treasury projects that this initiative will result in additional revenues of approximately $150 million during 1991 and over $1 billion for the five year period through 1995.

Of greater importance, in my opinion, is the following statement in the President's Budget: "To slow the growth in tax debt, the budget therefore includes funding for the first phase of a three-year tax collection initiative.... Treasury and IRS will develop plans during 1991 to achieve the balance of the three-year objective through a combination of management improvements, reprogramming, and resource growth."

The points here are quite straight-forward and right on the mark: We need to get off the roller coaster and plan for the long-term, increased staffing is certainly part of the answer -- but so are improved management and better use of our resources.

Quality training of new revenue officers and continuing education to maintain the skills of Collection personnel is needed to properly and effectively work accounts receivable. We therefore conduct formal Collection training, both in the classroom and through computer-based techniques, and augment these efforts with closely supervised on-the-job training. Collection has over 60 training courses for its employees, and revises these courses periodically to reflect tax law and administrative changes. An essential part of our current training efforts focus on the letter -- and the spirit -- of the Taxpayer Bill of Rights. In this regard, I would like to note that the President's Fiscal Year 1991 budget request includes significant additional resources for proper training throughout the IRS.

Summary, Internal Revenue Service

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1990
(Dollars in thousands)

	Perm. Pos.	FTE	Amount
1990 Appropriation (P.L. 101-136) Enacted by the Congress	106,377	115,336	5,548,930
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill	10	10	5,990
FY 1990 Rescissions (P.L. 101-164) Enacted in Transportation Bill			(7,627)
Sequestration (P.L. 99-177)	(737)	(737)	(46,193)
Staff reductions to absorb increased pay costs	(1,717)	(1,717)	
Internal transfers (restructure comparability) and reallocations	3,651	1,395	
Transfer to Inspector General's Office	(10)	(10)	(1,167)
Authorized level for FY 1990	106,377	115,092	5,499,783
Estimate, FY 1991	107,727	118,750	6,135,000

BUDGET OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1991

	Appropriation FY 1990		Authorized Level FY 1990		Budget Estimate FY 1991		Increase or Decrease (-) for 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Administration and management	1,000	90,454	2,349	139,000	2,343	130,972	94	15,004	105	8,190	(11)	6,808
2. Processing tax returns and assistance	44,394	2,[illegible]	33,719	1,350,497	33,755	1,444,517	36	86,020	300	11,050	(302)	76,370
3. Tax law enforcement	60,556	3,075,207	71,011	3,100,535	74,573	3,500,604	3,962	370,360	3,171	185,040	(300)	175,319
4. Information systems			7,513	832,752	8,000	900,027	575	101,175	648	147,433	(71)	33,752
Unobligated balance		4,010										
Unobligated balance available start of year		(39,191)										
Unobligated balance available end of year		11,000										
Total appropriation, authorized level and budget estimate	114,750	5,194,740	115,092	5,499,782	118,750	6,135,000	3,667	635,230	4,339	360,911	(653)	274,327
Permanent positions	105,039		106,377		109,727		3,350		4,699		(2,149)	

1310-1314

Summary, Internal Revenue Service

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Appropriation 1			Appropriation 2			Appropriation 3			Appropriation 4			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
PROGRAM CHANGES:															
1. Collection of additional tax revenue															
a. Collection of unpaid taxes	15	14	1,000	10	41	1,500	942	900	52,500	5	5	350	972	1,050	55,500
b. Correspondence audits	8	8	500				672	634	26,500				670	640	27,000
c. Field audits	12	11	674	2	17	350	1,277	1,130	75,188	13	12	938	1,304	1,170	77,150
d. Claim audits	2	2	200				132	144	7,700				134	148	7,900
e. Examination contract training									7,500						7,500
f. Monitoring dependency compliance				80	84	1,900	21	20	1,000				80	84	2,900
g. Monitoring mortgage tax credit compliance				6	6	200	8	6	300				14	14	500
h. Monitoring non-custodial dependency compliance				250	270	7,700	102	90	4,600				300	300	12,300
Subtotal, Collection of additional tax revenue	35	33	2,434	370	390	11,650	3,174	3,020	175,656	18	17	1,260	3,895	3,470	191,000
2. Improve tax administration															
a. Internal audit enhancement	70	72	3,704										70	72	3,704
3. Anti-Drug Abuse Act															
a. Anti-Drug Abuse Act							152	143	10,004				152	143	10,004
4. Information Systems										800	829	146,183	800	829	146,183
Subtotal, Program changes	111	105	6,138	370	390	11,650	3,326	3,171	185,660	804	846	147,433	4,699	4,329	389,911

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Appropriation 1			Appropriation 2			Appropriation 3			Appropriation 4			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
OTHER CHANGES:															
A. Increases necessary to maintain current levels															
1. Within-grade salary increase			348			3,754			10,886			1,012			15,000
2. January 1991 pay raise allowance			2,199			22,955			73,868			7,987			106,000
3. FY/FEB pay raise (P.L. 101-194)			1,262			631			1,896						3,789
4. Extra day's pay			323			3,842			8,948			909			13,839
5. Health and other benefits increase			748			7,862			18,991			1,491			29,000
6. Increased cost of FEHB/growing participation						10,000									10,000
7. Advancement of trainees									3,000						3,000
8. ADP non legislative requirement			900						3,000						4,000
9. Space rent adjustment			58			1,951			2,994			97			5,000
10. Inflation adjustments:															
a. Travel and transportation of persons			248			1,647			5,855			1,184			8,732
b. Transportation of things			52			1,334			219			1			1,606
c. Rental payments to GSA			291			8,981			11,373						20,126
d. Rent, communications and utilities			11			2,345			315			7,270			10,947
e. Printing and reproduction			208			9,637			1,507			227			11,850
f. Other services			710			3,991			3,294			3,894			11,540
g. Supplies and materials			125			810			859			1,996			3,900
h. Equipment			12			1,370			1,199			3,833			6,414
Subtotal, inflation adjustment			1,715			29,213			34,512			18,811			72,851
11. Annualizations															
a. Annualization of FY 1990 revenue initiative	39		1,236	99		3,277			1,385	83,915		15	1,977		1,499	97,504
b. January 1990 pay raise annualization			815			7,474				23,379			3,349			34,000
Subtotal, Annualizations	39		2,110	99		9,751			1,385	98,295		15	3,428		1,499	101,572
12. ADP contract increases													4,310			4,310
13. ADP reapplication	(13)	(13)	(517)	(43)	(40)	(1,215)	(107)	(100)	(3,225)	183	153	4,957				
Subtotal, Maintaining current levels	(13)	7	9,535	(43)	29	88,444	(107)	1,295	231,373	183	168	48,490			1,499	378,142

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Appropriation 1			Appropriation 2			Appropriation 3			Appropriation 4			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
OTHER CHANGES (continued):															
B. Workload growth increase::															
1. Process additional returns and supplemental documents				180	157	5,201							180	157	5,201
2. Tax forms printing						1,139									1,139
3. Postage						999									999
Subtotal, Workload growth increase				180	157	7,339							180	157	7,339
Subtotal, Increases	(13)	7	9,535	123	177	95,804	(197)	1,395	331,073	183	180	48,090	186	1,847	377,602
C. Non-recurring costs, savings and reductions															
1. Non-recurring costs:															
a. Non-recurring equipment						(1,710)			(794)						(2,504)
b. Non-recurring training						(894)			(30)						(724)
c. Non-recurring communications						(53)			(115)						(168)
d. Non-recurring space and housing						(1,940)			(898)						(1,738)
e. Non-recurring ADP										(131)	(127)	(5,348)	(131)	(127)	(5,348)
Subtotal, Non-recurring costs						(3,505)			(1,839)	(131)	(127)	(5,348)	(131)	(127)	(10,693)
2. 5-78 savings				(161)	(161)	(1,177)	(448)	(448)	(3,724)				(307)	(307)	(4,901)
3. FTS 2000 savings												(17,303)			(17,303)
4. Program reductions to offset pay costs	(19)	(19)	(849)	(484)	(484)	(14,797)	(1,055)	(1,055)	(30,877)	(115)	(112)	(4,087)	(1,582)	(1,580)	(50,290)
Subtotal, Reductions, non-recurring costs and savings	(19)	(19)	(849)	(545)	(545)	(19,479)	(1,501)	(1,501)	(44,831)	(246)	(239)	(26,738)	(2,310)	(2,303)	(90,897)
D. Transfers to other agencies:															
1. Inspector General (consolidation)				(3)	(3)	(125)	(3)	(3)	(194)				(5)	(5)	(319)
2. Justice (ACDS)									(12,129)						(12,129)
Subtotal, Transfers to other agencies				(3)	(3)	(125)	(3)	(3)	(12,323)				(5)	(5)	(12,448)
Subtotal, Reductions	(19)	(19)	(849)	(547)	(547)	(19,604)	(1,504)	(1,504)	(56,154)	(246)	(239)	(26,738)	(2,315)	(2,308)	(103,345)
Subtotal, Other changes	(31)	(11)	8,686	(424)	(370)	76,370	(1,611)	(290)	175,319	(63)	(71)	13,752	(2,149)	(681)	274,127
Total, Increases or Decreases in FY 1991 Compared with FY 1990 Authorized Level	69	94	15,864	(48)	33	86,939	1,715	2,962	379,959	881	979	101,175	2,316	3,869	635,338

INTERNAL REVENUE SERVICE

Summary of Budget Estimates

FISCAL YEAR 1990

The FY 1990 IRS budget funds a $305.0 million (6%) increase above the FY 1989 budget. Critical activities being supported by this increase include Returns Processing, Taxpayer Service, and Collection. The budget also includes initiatives to collect additional tax revenue and to improve information systems, particularly tax system modernization, funds for which have been increased by 86 percent.

Through internal reprogramming and cutbacks in discretionary areas of expenses including support and travel, IRS has addressed unbudgeted requirements in FY 1990 for increasing labor costs including the January pay raise, higher Federal Employees Retirement System contribution rates, higher premiums for employee health insurance, and special salary rates for highly competitive labor markets, and required advancement of trainees. The FY 1990 financial plan contains adjustments among all programs which reflect the impact of sequestration and these other shortfall issues. In addition, a transfer of $1.6 million and 16 FTE is being made to the Treasury Inspector General to provide the resources to address Congressional concerns about IRS program integrity.

IRS continues to be a major partner in efforts to combat drug abuse, participating in seven out of every ten organized crime and drug enforcement cases. Congressional action on the Treasury, Postal Service and General Government Appropriation Bill for FY 1990 (Public Law 101-136) added $7.4 million for IRS's criminal investigation activities. Subsequent action on the Transportation Appropriation bill (Public Law 101-164) rescinded $7.4 million from IRS overall, while adding $5.0 million to support "vigilant enforcement of Federal tax violations and money laundering related to illegal narcotics activity." By not applying any of the rescission to drug enforcement aspects of its operations, IRS is able to apply an additional $12.4 million resulting from Congressional action to drug enforcement.

FISCAL YEAR 1991

The FY 1991 IRS Budget requests funding of $6,135.0 million, and increase of $635.2 million, almost 12 percent. Information systems development is targeted with a request for a prog am increase of $147.4 million and 18 percent. Within this proposal, the priority of

tax system modernization is identified for a program increase of $86.6 million and 55 percent. The request contains $191 million in new enforcement initiatives to generate additional tax revenue and to promote a high level of voluntary compliance by all taxpayers. An increase of $34 million to cover three months of the 3.6 percent pay raise, effective January 1990, in FY 1991, as well as $107 million for the proposed January 1991 pay raise, $3.8 million for the SES pay raise, and $4.8 million for the legislated administratively uncontrollable overtime increases have been included. Reductions of $58.2 million and 1,589 FTE have been taken to offset these mandatory pay issues.

An FY 1991 budget increase of $7.5 million will continue support of tax processing levels required to ensure that tax returns are processed accurately and refunds are issued timely as the number of returns filed continues to grow. Key workforce investments in returns processing over the past several years have enabled IRS personnel to do their most critical job right -- promptly processing tax returns, paying refunds timely, and undertaking the compliance processes for the tax enforcement programs. Also contained within the budget is $20.0 million in response to requirements of the Anti-Drug Abuse Act passed by the Congress, enabling IRS to continue to play a major role in the war on drugs.

Information Systems

An important objective in FY 1991 is to continue tax system modernization efforts to ensure a tax system that is both effective and fair as well as responsive and responsible to taxpayers. We cannot afford to lag behind in this area. This initiative is designed to reduce labor-intensive, manual-handling of data throughout the tax system. Technology is rapidly changing and IRS must be prepared to deal with continued growth in information and the limits of current capacity that will be faced in the near future.

The budget request incorporates plans for a new approach to service delivery in the Taxpayer Service program. Previously initiated efforts to achieve higher accuracy and service delivery levels in the toll-free program will continue. However, IRS will also begin to rely more heavily on the Tele-Tax program through one or more feasibility pilot projects. This approach involves changing the access provisions of the toll-free program so that taxpayers seeking tax law or procedural information would first be encouraged to proceed through a menu of pre-recorded assistance.

The toll-free assistance program will move toward an optimum mix of recorded and personal assistance, recognizing the need for live assistance for complex questions and individual account matters. The proposed expansion of the Automated Taxpayer Service System, including the use of expert systems, and the gradual upgrading of a smaller Taxpayer Service workforce, will make the program more appropriate for live assistance.

The current impediment to immediate adoption of this approach is caused by the obsolescence of the automated call distributors (ACDs), which are not compatible with digital call gating technology. Acquisition of the new ACDs, to commence in FY 1991, will include call gating features that will tie into Tele-Tax. As one aspect of feasibility testing, IRS will investigate a cost-effective provision of having some call gating services provided by toll-free long distance vendors.

IRS is requesting an increase of $146.2 million and 629 FTE to support critical Information Systems initiatives. We have placed a high priority on maintaining and modernizing systems while improving accuracy and service to taxpayers, and deferring enhancements to other program areas.

- o Processing and Services

  Processing and Services consists of initiatives that support development and testing of systems which provide information and services directly to taxpayers.

- o Compliance and Enforcement

  These initiatives provide support for systems involved in directing IRS compliance and enforcement programs. Included in this category is support for development and testing of the Integrated Collection System, the next step in upgrading the automated Collection process.

- o Program Support

  Program Support includes management and financial information initiatives that will ensure the efficient accomplishment of the IRS payroll and personnel systems, financial systems, resource inventory system and quality assurance efforts.

January 29, 1990

1320

- Tax Systems Modernization

  Tax Systems Modernization consists of major initiatives that will restructure the automated tax systems for the 1990's. These initiatives support Information Systems Development sponsored redesign projects and IRS's two electronic filing projects, full utilization of the electronic filing system and development of an Electronic Federal Tax Deposit System. In addition, the Service Center Systems project provides for the first major procurement to replace existing tax processing equipment.

Internal Audit

The proposed addition of $3.8 million and 72 FTE in FY 1991 will increase internal audit coverage in three critical areas. These areas include: (1) increased installation reviews of regional, district, and service center programs; (2) augmentation of systems development reviews of the design and implementation of major ADP systems; and (3) increased integrity reviews that probe high-risk areas of IRS operations and test transactions to detect fraud or integrity breaches.

Maintaining the integrity of IRS operations is a key element in preserving public confidence in IRS's administration of the tax laws and is fundamental to our system of voluntary compliance. The need for an increased level of resources in this area is a high priority.

Enforcement Initiatives

The Internal Revenue Service is proposing a series of new compliance enforcement initiatives in FY 1991 at a cost of $191 million. The initiatives serve both short and long term revenue objectives, and are intended to produce direct enforcement revenue as well as to promote better voluntary compliance.

January 29, 1990

1321

- Collection of Unpaid Taxes

  In order to lower the inventory and value of outstanding accounts receivable, IRS will close an additional 60,151 accounts and collect an additional $150 million in FY 1991.

- Examination Field Audits

  IRS will expand the auditing of tax returns in district offices to increase compliance and raise additional revenue. Due to the time lapse between the initiation of new audits to actual collection of additional tax due, significant revenues will not accrue until FY 1992, but increase substantially thereafter, producing $1.1 billion in additional tax collections through FY 1995.

- Examination Correspondence Audits

  IRS will collect an estimated $144 million in additional tax collections in FY 1991 through increased service center correspondence audits and contacts.

- Examination Claim Audits

  By expanding the auditing of claims filed against the government by taxpayers due to changes made to the originally filed tax returns, starting in FY 1991, IRS will begin to accrue significant revenue in FY 1992 ($111 million).

- Examination Contract Training

  IRS will contract out the training of new revenue agents at a cost of $7.5 million, enabling experienced agents formerly used to train new recruits to continue auditing returns, resulting in an estimated $14 million in additional tax collections in FY 1991.

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- Returns Processing Pre-1985 Non-Custodial Agreement Initiative

  IRS will validate deductions claimed for dependents by non-custodial parents under pre-1985 agreements. It is estimated this will result in the collection of $173 million in additional taxes in FY 1991.

- Returns Processing Dependent Social Security Number Matching Initiative

  By increasing document matching and following up on dependent social security numbers provided on tax returns, IRS will collect and estimated $58 million in additional taxes in FY 1991.

- Returns Processing Mortgage Interest Credit Initiative

  IRS will follow up on information provided on tax returns to determine the validity of tax credits claimed for mortgage interest, collecting an estimated $18 million in additional tax revenue in FY 1991.

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Management Initiatives

Apart from those enforcement initiatives supported by proposed FY 1991 budget increases, the IRS is taking management actions to accelerate the closing of cases in Examination, Appeals, and Employee Plans, resulting in $2.5 billion in additional tax revenue.

- Counsel/Appeals Large Case Initiative

  IRS will accelerate closing of 47 targeted large Appeals cases, each with dollars in dispute exceeding $10 million. A staff redirection of 145 FTE from Examination will be required.

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- o Employee Plans Small Plan Actuarial Initiative

  Resources will be diverted from low-yield coverage cases in the Employee Plans program to examine 17,300 additional plans for plan years 1986-1988.

- o Coordinated Examination Program Authority Initiative

  The establishment of settlement authority at the Examination Program cases will result in earlier resolution of issues and collection of deficiencies and interest. Thirty percent of the cases now ending up in Appeals will be settled earlier.

- o Examination Tax Shelter Initiative

  By targeting key tax shelter cases, IRS will accelerate the closing of an additional 50,000 cases from Examination into Appeals.

- o Examination Excise Tax Initiative

  IRS will redirect 150 FTE in Examination from low yield audits to higher yield excise tax examinations.

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IRS Budget Presentation

Senate Report 101-105 which accompanied the Treasury, Postal Service, and General Government Appropriation Bill for FY 1990 instructed the Department of the Treasury to review the IRS budget presentation and develop a new budget account format for fiscal year 1991 which more appropriately represented the agency requirements at the program level. The FY 1991 President's budget as submitted to the Congress contains the proposed appropriation restructuring for the Internal Revenue Service. Four appropriation accounts are proposed:

- Administration and Management

  Tax administration policy formulation, execution direction, management services, and all activities of internal audit, investigation, and program integrity protection.

- Processing Tax Returns and Assistance

  Processing tax returns, accounting for revenues, issuing refunds and notices, processing data for compiling statistics of income, and assisting taxpayers in correct filing of their returns and in paying taxes that are due.

- Tax Law Enforcement

  All aspects of tax law enforcement, including: determining unpaid tax liability and collecting taxes owed but not paid, conducting due process in the appeal and litigation of tax disputes, issuing regulations pursuant to the tax code, determining tax liability status or exemption of organizations and financial entities, representing U.S. interest in international tax matters and tax treaty issues, processing currency transaction reports, investigating criminal violations of the tax code and other laws governing financial transactions, and matching information documents to tax returns.

- Information Systems

  Information systems that support the efficient conduct of all tax administration program functions and major redesign and acquisition of the basic information system infrastructure, to achieve a fully integrated framework for tax administration operations.

Subsequent to development of the President's budget, more precise detailed information became available, requiring a realignment among the four operating accounts. The net effect of the adjustment is zero.

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(Amount in Millions)

	President's Budget	Revised Structure	Difference
Administration and Management	$ 121.5	$ 136.1	+$ 14.6
Processing Tax Returns and Assistance	$1,449.7	$1,444.5	-$ 5.2
Tax Law Enforcement	$3,500.0	$3,560.5	+$ 60.5
Information Systems	$1,063.8	$ 993.9	-$ 69.9
Total Internal Revenue Service	$6,135.0	$6,135.0	$ 0

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Administrative Provisions--Internal Revenue Service

Section 1. Not to exceed 4 per centum of any appropriation made available to the Internal Revenue Service for the current fiscal year by this Act may be transferred to any other Internal Revenue Service appropriation upon [the] advance [approval of] notice to the House and Senate Committees on Appropriations.

[Sec. 2. Not to exceed 15 per centum, or $15,000,000, whichever is greater, of any appropriation made available to the Internal Revenue Service for document matching for the current fiscal year by this act may be transferred to any other Internal Revenue Service appropriation for document matching.] (Treasury Department Appropriations Act, 1990.)

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Summary, Internal Revenue Service

Standard Classification Schedule
(Direct Obligations Only)

	Appropriation 1989	Authorized Level 1990	Budget Estimate 1991	1991 Increases over 1990
Total number of permanent positions	105,920	106,377	108,727	2,350
Full time equivalent (FTE) workyears	114,758	115,092	118,759	3,667
11.1 Full-Time Permanent Positions	2,782,833	2,925,363	3,175,101	249,738
11.3 Other than Full-Time Permanent Positions	262,774	306,798	323,019	16,221
11.5 Other Personnel Compensation	90,198	94,472	106,339	11,867
11.8 Special Personal Services Payments	8,531	9,609	9,616	7
11.9 Personnel Compensation (Total)	3,144,334	3,336,242	3,614,075	277,833
12.1 Civilian Personnel Benefits	616,723	682,090	778,540	96,450
13.0 Benefits for Former Personnel	17,702	19,897	20,651	754
21.0 Travel and Transportation of Persons	125,908	133,929	160,249	26,320
22.0 Transportation of Things	35,580	32,192	34,194	2,002
23.1 Rental Payments to GSA	339,161	381,378	424,599	43,221
23.3 Communications, Utilities & Misc. Charges	371,014	343,594	337,264	(6,330)
24.0 Printing and Reproduction	104,471	105,430	120,241	14,811
25.0 Other Services	289,422	338,832	431,566	92,734
26.0 Supplies and Materials	62,148	43,641	54,218	10,577
31.0 Equipment	88,854	90,905	156,085	65,180
41.0 Grants, Subsidies And Contributions	2,790	3,018	3,018	0
42.0 Insurance Claims And Indemnities	438	300	300	0
99.0 Sub-total, Direct Obligations	5,198,545	5,511,448	6,135,000	623,552
Unobligated Balances Available SOY (-)	(20,101)	(11,686)	0	11,686
Unobligated Balances Available EOY (+)	11,686	0	0	0
Unobligated Balances Lapsing	4,610	0	0	0
TOTAL BUDGET AUTHORITY	5,194,740	5,499,762	6,135,000	635,238

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1990
(Dollars in thousands)

	Perm. Pos.	FTE Pos.	Amount
1990 Appropriation (P.L. 101-136) Enacted by the Congress	900	975	72,302
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill			
FY 1990 Rescissions (P.L. 101-164) Enacted in Transportation Bill			(141)
Sequestration (P.L. 99-177)			
Staff reductions to absorb increased pay costs	(19)	(19)	
Internal transfers (restructure comparability) and reallocations	1,361	1,293	60,747
Transfer to Inspector General's Office			
Authorized Level for FY 1990	2,340	2,348	129,908
Estimate, FY 1991	2,439	2,343	136,972

DIGEST OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1990

	Appropriation FY 1989		Authorized Level FY 1990		Budget Estimate FY 1991		Increase or Decrease (-) for 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Executive direction	124	8,175	121	8,838	118	9,788	(3)	950			(3)	950
2. Management services	1,086	78,279	839	51,522	792	54,485	(39)	2,963			(39)	2,963
3. Internal audit and internal security			1,388	69,838	1,433	71,881	125	11,171	105	6,198	20	4,973
Unobligated balance		283										
Unobligated balance available start of year		(963)										
Unobligated balance available end of year		449										
Total appropriation, authorized level and budget estimate	1,888	88,963	2,348	129,988	2,343	136,972	84	15,984	105	6,198	(11)	8,986
Permanent positions	1,135		2,348		2,439		88		111		(31)	

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Executive Direction			Management Services			Internal Audit and Internal Security			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
PROGRAM CHANGES:												
1. Collection of additional tax revenue												
a. Collection of unpaid taxes							15	14	1,909	15	14	1,909
b. Correspondence audits							6	6	500	6	6	500
c. Field audits							12	11	674	12	11	674
d. Claim audits							2	2	200	2	2	200
Subtotal, Collection of additional tax revenue							35	33	3,434	35	33	3,434
2. Improve tax administration												
a. Internal audit enhancement							76	72	3,764	76	72	3,764
Subtotal, Program changes							111	105	6,198	111	105	6,198

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Executive Direction			Management Services			Internal Audit and Internal Security			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
OTHER CHANGES:												
A. Increases necessary to maintain current levels												
1. Within-grade salary increase			10			197			141			348
2. January 1991 pay raise allowance			100			1,032			1,379			2,500
3. GS/GMS pay raise (P.L. 101-194)			531			831						1,362
4. Extra day's pay			34			127			172			333
5. Health and other benefits increase			68			302			338			708
6. ADP non legislative requirement									900			900
7. Space rent adjustment			4			54						58
B. Inflation adjustments:												
a. Travel and transportation of persons			13			194			49			246
b. Transportation of things						42			10			52
c. Rental payments to GSA			23			130			38			291
d. Rent, communications and utilities			9						2			11
e. Printing and reproduction						232			56			288
f. Other services			18			612			152			900
g. Supplies and materials			16			85			34			135
h. Equipment			10						2			12
Subtotal, inflation adjustment			87			1,394			334			1,715
C. Annualizations												
a. Annualization of FY 1990 revenue initiative							20	1,395		20		1,395
b. January 1990 pay raise annualization			98			312			443			853
Subtotal, Annualizations			98			312	20	1,735		20		2,110
10. ADP recapitalization				(13)	(13)	(517)				(13)	(13)	(517)
Subtotal, Maintaining current levels			1,060	(13)	(13)	3,513	20	4,973		(13)	7	9,536
Subtotal, Increases			1,060	(13)	(13)	3,513	20	4,973		(13)	7	9,536

1991

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Executive Direction			Management Services			Internal Audit and Internal Security			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos	FTE	Amount	Pos	FTE	Amount
OTHER CHANGES (continued):												
B. Non-recurring costs, savings and reductions												
1. Program reductions to offset pay costs	(3)	(3)	(100)	(15)	(15)	(540)				(18)	(18)	(640)
Subtotal, Non-recurring costs and savings	(3)	(3)	(100)	(15)	(15)	(540)				(18)	(18)	(640)
Subtotal, Reductions	(3)	(3)	(100)	(15)	(15)	(540)				(18)	(18)	(640)
Subtotal, Other changes	(3)	(3)	960	(28)	(28)	2,963	28	4,973	(31)	(11)	8,000	
Total, Increases or Decreases in FY 1991 Compared with FY 1990 Authorized Level	(3)	(3)	960	(30)	(30)	2,963	111	135	11,171	99	94	15,094

Administration and Management, Internal Revenue Service

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

The Administration and Management appropriation provides funding for policy formulation and executive direction of the Internal Revenue Service (IRS). This appropriation consists of three activities: Executive Direction, Management Services and Internal Audit and Internal Security.

Requested resources for the Administration and Management appropriation total 2,343 average positions and $136.1 million, a net increase of 94 average positions and $15.1 million above the FY 1990 revised level.

1. Executive Direction

The Executive Direction activity is composed of the following National Office components:

-- the Commissioner of Internal Revenue, the Senior Deputy Commissioner, Deputy Commissioner (Operations), Deputy Commissioner (Planning and Resources)/Chief Financial Officer, Chief Information Officer, and other offices assisting the Commissioner such as: the Executive Secretariat, Public Affairs, Legislative Liaison, Taxpayer Ombudsman, Equal Opportunity, Quality; and

-- the Chief Counsel and Deputy Chief Counsel.

The Commissioner and Senior Deputy Commissioner establish the policies and objectives of the IRS and direct the IRS's activities towards accomplishment of these objectives. The Deputy Commissioners serve as the Commissioner's principal advisors on policy matters affecting operations, management and information systems. The Chief Counsel advises and assists the Commissioner on all matters pertaining to the administration and enforcement of Internal Revenue laws and related statutes, as well as non-tax legal questions.

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Below is a description of each of the offices managed within the Executive Direction activity:

-- the Office of the Executive Secretariat provides information to the Office of the Commissioner. Additionally, this office provides staff support for special projects, the Commissioner's Advisory Group, executive conferences and meetings; coordinates and develops liaison meetings with practitioner groups; coordinates with line functions; oversees the operation of the Commissioner's immediate staff; and works closely with other Service personnel;

-- the Public Affairs office encourages voluntary compliance of complex tax laws by providing tax information designed to keep the public informed of the changing tax law requirements. It also publicizes enforcement initiatives and accomplishments to build up public confidence that those who violate the law will be punished;

-- the Legislative Liaison office develops legislative proposals, analyzes and assists in the implementation of legislation affecting IRS operations, assists members of Congress and Congressional staff employees in understanding the tax administration system, monitors Congressional hearings, and coordinates replies to GAO reports;

-- the Taxpayer Ombudsman's office administers the Problem Resolution Program, a Service-wide program for handling individual taxpayer complaints, represents taxpayers' interests and concerns in the IRS's policy and decision making processes, and identifies areas of tax law or IRS procedures that have a possible negative impact on taxpayers;

-- the Equal Opportunity office administers the Service-wide EEO Affirmative Action Program and the discrimination complaint processing function as well as Service-wide EEO program development and evaluation; and

-- the Quality office is responsible for providing coordination, oversight and direction to multi-functional activities to ensure that overall IRS Quality objectives, policies, and programs are implemented uniformly, efficiently and effectively. The primary purposes of Quality activities are to improve customer satisfaction and confidence, improve quality of our products and services, and to increase our productivity by reducing waste and re-work wherever these are inherent in the organization's processing systems.

FY 1991 Program

The request for Executive Direction totals 118 average positions and $9.8 million, a decrease of 3 average positions and an increase of $0.9 million from the FY 1990 revised level. The decrease in average positions is necessary to absorb the cost of the FY 1991 pay raise. The $0.9 million increase is due to mandatory cost increases.

2. Management Services

The Management Services activity develops and provides Service-wide policy for managing the human, logistical and financial resources needed to fulfill the IRS's tax administration mission in a cost effective manner. The following functions are included under Management Services:

-- personnel and training;

-- logistics;

-- planning;

-- budget and accounting;

-- payroll and management information;

-- tax and operational research and development;

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-- administration of regulations governing the practice of representatives before the Internal Revenue Service and the Bureau of Alcohol, Tobacco and Firearms;

-- physical security; and

-- design, printing and distribution of tax forms and instructions.

FY 1991 Program

The request for Management Services totals 792 average positions and $54.5 million, a decrease of 28 average positions and an increase of $3.0 million from the FY 1990 revised level. The decrease in average positions is necessary to cover the FY 1991 pay raise (-15 average positions) and ADP reapplication (-13 average positions). The net $3.0 million increase is due to mandatory cost increases after an offset to absorb the FY 1991 pay raise.

3. Internal Audit and Internal Security

This activity provides the internal audits and internal security investigations critical to protecting public confidence in the integrity of the Internal Revenue Service. The Assistant Commissioner (Inspection) has direct line authority over both the Internal Audit and Internal Security divisions in the National Office and seven Regional Inspectors who, in turn, direct the activities of auditors and investigators in IRS regions, service centers and major district offices. The Assistant Commissioner (Inspection) reports directly to both the IRS Commissioner and the Treasury Inspector General. The Inspector General provides oversight of IRS Inspection, investigates allegations of misconduct of high-level IRS officials and performs joint audits and investigations involving IRS and other Treasury bureaus. The specific functions of each IRS Inspection activity are:

-- Internal Audit independently reviews Service programs at the national, regional and local levels to ensure that laws and regulations are being followed; that internal management controls are in place to prevent abuse and to protect agency funds and tax revenues; that programs and major ADP systems are functioning efficiently and effectively; and that appropriated funds are spent as authorized; and

-- Internal Security conducts background investigations to ensure that all workers meet the Service's employment standards; conducts criminal misconduct investigations on allegations of fraud, extortion, drug abuse, bribery, assault and other attempts to intimidate or harass Service employees; and conducts integrity investigations to probe high-risk areas of Service operations.

FY 1991 Program

The request for Internal Audit and Internal Security totals 1,433 average positions and $71.8 million, an increase of 125 average positions and $11.2 million above the FY 1990 revised level. This increase reflects the following major adjustments:

A. Protection of Integrity.....72 average positions and $3.8 million

These resources will help restore a 39% decline in Internal Audit staffing relative to growth in IRS operations as documented in GAO Report GGD-89-1 and will be used to increase internal audit coverage in three critical areas of Service operations: installation reviews of regional, district and service center programs to ensure conformance to stated operating policies; systems development reviews of the design and implementation of major ADP systems; and integrity reviews that probe high-risk areas of Service operations and test transactions to detect fraud or integrity breaches.

B. Collection of Additional Tax Revenues.....33 average positions and $2.4 million

These resources will be used to provide additional internal audits in support of fiscal year 1991 Revenue Initiatives associated with the Examination and Collection functions and Internal Security investigations on the new hires resulting from this initiative.

	1989 Actual	1990 Estimate	1991 Estimate
Selected Workload Data			
Internal Audits Completed	301	329	404
Internal Security Investigations Completed	14,941	15,012	15,722

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[Salaries and Expenses] Administration and Management

For necessary expenses of the Internal Revenue Service, not otherwise provided [; for] for; executive direction [and], management services, and internal audit and security; including purchase (not to exceed 89 for replacement only, for police-type use) and hire of passenger motor vehicles (31 U.S.C. 1343(b); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; [$72,382,000] $136,072,000, of which not to exceed $25,000 for official reception and representation expenses and of which not to exceed $500,000 shall remain available until expended for research [. and of which $128,000 shall remain available until expended for tax systems modernization initiatives]. (Treasury Department Appropriations Act, 1990.)

[Of the funds appropriated under this head in the Treasury, Postal Service and General Government Appropriations Act, 1990, $141,000 are rescinded.] (Department of Transportation and Related Agencies Appropriations Act, 1990.)

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Administration and Management, Internal Revenue Service

SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Increases or Decreases for 1991 Total	Increases or Decreases for 1991 Program Changes	Increases or Decreases for 1991 Other
1. Executive Direction						
Full-time permanent	122	120	117	(3)	0	(3)
All other	2	1	1	0	0	0
Total	124	121	118	(3)	0	(3)
2. Internal Audit and Internal Security						
Inspector	0	522	543	21	13	8
Internal Auditors	0	528	599	71	65	6
Invest. Para-Professional	0	30	30	0	0	0
Other Full-Time Perm	0	206	239	33	27	6
Total Full-time perm	0	1,286	1,411	125	105	20
All others	0	22	22	0	0	0
Total	0	1,308	1,433	125	105	20
3. Management Services						
Full-time permanent	1,679	801	773	(28)	0	(28)
All other	6	19	19	0	0	0
Total	1,685	820	792	(28)	0	(28)
Appropriation Total						
Full-time permanent	1,801	2,207	2,301	94	105	(11)
All other	8	42	42	0	0	0
Total	1,809	2,249	2,343	94	105	(11)

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ERRATA

The amount requested for this new account totals $136,072,000, $14,624,000 above the amount shown in the President's Budget. The difference reflects the correct alignment of resources among the Service's four operating appropriations. Calculations in preparation for the FY 1991 President's Budget were done prior to the final technical alignment of base resources in the FY 1991 budget, in conjunction with calculations to restructure the IRS appropriations. All program initiatives inherent in the President's Budget are completely unchanged.

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ADMINISTRATION AND MANAGEMENT, INTERNAL REVENUE SERVICE

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request, a transfer to the Office of the Inspector General and as a result of other workload and cost changes, the Internal Revenue Service proposes the following adjustments in FY 1990 spending ($000):

Object Classification	President's Budget As Amended	+ or - Congressional Action	+ or - Inspector General Transfer	+ or - Proposed Reprogramming	+ or - Proposed Authorized Level	+ or - Restructure Comparability	Proposed Restructured Level
11.1 Full-Time Permanent Positions	31,488	(91)		6,509	37,906	39,799	77,705
11.3 Other than Full-Time Permanent Positions..	431	0		165	596	0	596
11.5 Other Personnel Compensation	552	6		909	1,467	0	1,467
11.6 Special Personal Services Payments	17	0		0	17	0	17
11.8 Personnel Compensation (Total)	32,488	(85)	0	7,583	39,986	39,799	79,785
12.1 Civilian Personnel Benefits	7,998	18		(1,218)	6,798	5,517	12,313
13.0 Benefits for Former Personnel	0	0		0	0	0	0
21.0 Travel and Transportation of Persons	3,015	17		(636)	2,397	3,751	6,148
22.0 Transportation of Things	580	1		1,011	1,572	70	1,642
23.1 Rental Payments to GSA	4,157	6		3,144	7,307	(1,396)	5,911
23.3 Communications, Utilities & Misc. Charges	6,199	2		(2,995)	3,206	(2,067)	1,139
24.0 Printing and Reproduction	1,350	0		(949)	401	2	403
25.0 Other Services	13,030	11		(4,858)	8,183	1	8,184
26.0 Supplies and Materials	2,059	3		(1,793)	269	92	361
31.0 Equipment	1,272	44		(470)	846	4,096	4,942
41.0 Grants, Subsidies And Contributions	0	0		0	0	0	0
42.0 Insurance Claims And Indemnities	286	0		(96)	190	0	190
99.0 Total	72,382	17	0	(1,276)	71,123	49,865	120,988
BUDGET ACTIVITY							
EXECUTIVE DIRECTION	8,384			452	8,836	0	8,836
MANAGEMENT SERVICES	63,998	(141)		(1,670)	62,287	(10,765)	51,522
INTERNAL AUDIT AND INTERNAL SECURITY	0	158		(158)	0	60,630	60,630
TOTAL, ADMINISTRATION AND MANAGEMENT	72,382	17	0	(1,276)	71,123	49,865	120,988

EXPLANATION OF CONGRESSIONAL ACTION

The FY 1990 Treasury Appropriation included additional funding above the President's Budget as amended to improve drug enforcement. In addition, a reduction to funding levels is reflected due to sequestration.

EXPLANATION OF REPROGRAMMING

1. Absorption of pay raise resulted in a staff reduction (19 FTE) and reductions to support areas.
2. Other cost increases such as currency transaction reporting, tax forms distribution, internal audit, and employee benefits.

EXPLANATION OF RESTRUCTURE COMPARABILITY

1. Appropriation restructuring on a comparable basis with the account proposal for FY 1991.

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EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

The FY 1991 funding requirements for Administration and Management are projected to be $136,872,000. Total increases of $15,733,000 are offset by $649,000 in program reductions; resulting in a net increase of $15,084,000 over the FY 1990 funding level of $120,988,000. In addition, total increases of 125 average positions are offset by a reduction of 31 average positions resulting from program reductions and ADP reapplication, resulting in a net increase of 94 average positions from the FY 1990 staffing levels.

PROGRAM CHANGES

Total Requested Program Changes.....105 average positions and $6,198,000

The total program changes requested are distributed into the following object classes:

Personnel Services	$3,605,000
Travel and Transportation of Persons	623,000
Communications, Utilities, and Other Rent	586,000
Printing and Reproduction	45,000
Other Services	439,000
Supplies and Materials	148,000
Equipment	752,000
	$6,198,000

1. Collection of Additional Tax Revenues.....33 average positions and $2,434,000

Resources are requested to enable the IRS to collect additional tax revenues through a package of FY 1991 revenue initiatives. Included in the Administration and Management appropriation are resources for support of four revenue initiatives that are being requested in the Tax Law Enforcement appropriation. These are:

a. Collection of Unpaid Taxes: Internal Audit & Internal Security requires 14 average positions and $1.060 million to support this initiative described in the Tax Law Enforcement appropriation.

b. Examination Field Audits: Internal Audit & Internal Security requires 11 average positions and $0.674 million to support this initiative described in the Tax Law Enforcement appropriation.

c. Examination Correspondence Audits: Internal Audit & Internal Security requires 6 average positions and $0.500 million to support this initiative in the Tax Law Enforcement appropriation.

d. Examination Claims Audits: Internal Audit & Internal Security requires 2 average positions and $0.200 million to support this initiative described in the Tax Law Enforcement appropriation.

The increase for collecting additional tax revenues is distributed into the following object classes:

Personnel Services	$1,534,000
Travel and Transportation of Persons	73,000
Communications, Utilities, and Other Rent	292,000
Printing and Reproduction	24,000
Other Services	219,000
Supplies and Materials	49,000
Equipment	243,000
	$2,434,000

2. Protection of Integrity.....72 average positions and $3,764,000

Resources are requested to help restore a 39% decline in Internal Audit staffing relative to growth in IRS operations as documented in GAO report GGD-89-1 and will be used to increase internal audit coverage in three critical areas of Service operations: installation reviews of regional, district and service center programs to ensure conformance to stated operating policies; systems development reviews of the design and implementation of major ADP systems; and integrity reviews that probe high-risk areas of Service operations and test transactions to detect fraud or integrity breaches.

The increases for the protection of integrity are distributed into the following object classes:

Personnel Services	$2,871,000
Travel and Transportation of Persons	550,000
Communications, Utilities, and Other Rent	294,000
Printing and Reproduction	21,000
Other Services	220,000
Supplies and Materials	99,000
Equipment	509,000
	$3,764,000

TOTAL OTHER CHANGES.....-11 average positions and $8,886,000

Increases necessary to maintain current levels.....7 average positions and $9,535,000

1. Within-Grade Salary Increases.....$ 348,000

Net cost of within grade salary advances requested total $0.348 million.

2. January 1991 Pay Raise Allowance.....$2,590,000

Resources to fund the January 1991 pay increase.

3. EX/SES Pay Raise (P.L. 101-194).....$1,262,000

This amount represents newly legislated requirements for pay increase for EX and SES executives.

4. Extra Day's Pay.....$ 323,000

This adjustment reflects the cost of personnel compensation and benefits for one additional work day in FY 1991.

5. Health and Other Benefits Increases.....$ 746,000

The Office of Personnel Management (OPM) projects a 15% increase in employee benefits.

6. AUO New Legislation Requirement.....$ 900,000

Public Law 101-173 amends Section 5545 (c)(2) of Title 5, United States Code with respect to the method by which premium pay is determined for irregular, unscheduled overtime duty (Administratively Uncontrollable Overtime = AUO) performed by a Federal employee. This law will increase the overtime cost of Internal Revenue Service Inspectors.

7. Space Rent Adjustment.....$ 58,000

Represents the increase of GSA rent rate from 4.4% to 5.4%.

8. Increased Costs Due to Inflation.....$1,715,000

a. Increased cost of travel.....$246,000

GSA estimates a 6.5% increase for per diem and motor pool. The deflator of 4.2% has been applied to all other.

b. Increased cost of transportation of things.....$ 52,000

The deflator of 4.2% has been applied to the base.

c. Increased cost of rent, communications and utilities.....$212,000

GSA estimates a 4.4% increase for rent, communications and utilities.

d. Increased cost of printing and reproduction.....$288,000

The Government Printing Office (GPO) projects a 7% increase for printing and reproduction.

e. Increased cost of other services.....$780,000

The deflator of 4.2% has been applied to the base.

f. Increased cost of supplies and materials.....$125,000

The deflator of 4.2% has been applied to the base.

g. Increased cost of equipment.....$ 12,000

GSA estimates a 5% increase for vehicle purchases. The deflator of 4.2% has been applied to all other equipment.

9. Annualizations.....20 average positions and $2,110,000

a. Annualization of FY 1990 Revenue Initiative.....20 average positions and $1,295,000

Resources are requested to enable the IRS to collect additional tax revenue through funding the full year cost of the FY 1990 revenue initiatives that were not begun until mid-FY 1990. The resources requested are for support of initiatives contained in the Processing Tax Returns and Assistance appropriation and the Tax Law Enforcement appropriation, and are primarily internal audit and internal security personnel.

b. January 1990 Pay Raise.....$ 815,000

This amount represents personnel compensation and benefits annualized for the FY 1990 pay raise.

10. ADP Reapplication.....-13 average positions and -$ 517,000

Redirection of resources to the Integrated Telecommunications Service project because the responsibility for the Field and National Office telecommunications program has been transferred to Computer Services.

Non-recurring costs, savings and reductions.....-18 average positions and -$ 649,000

1. Reductions.....-18 average positions and -$ 649,000

a. Program reduction to offset pay costs.....-18 average positions and -$ 649,000

Reduction necessary to offset January 1, 1991 pay increase, and AUO increases.

Standard Classification Schedule
(Direct Obligations Only)

	Appropriation 1989	Authorized Level 1990	Budget Estimate 1991	1991 Increases over 1990
Total number of permanent positions	1,155	2,340	2,420	80
Full time equivalent (FTE) workyears	1,809	2,249	2,343	94
11.1 Full-Time Permanent Positions	51,057	77,705	84,468	6,763
11.3 Other than Full-Time Permanent Positions	1,045	596	637	41
11.5 Other Personnel Compensation	1,483	1,467	2,416	949
11.8 Special Personal Services Payments	12	17	17	0
11.9 Personnel Compensation (Total)	53,597	79,786	87,538	7,753
12.1 Civilian Personnel Benefits	7,088	12,313	14,538	2,225
13.0 Benefits for Former Personnel	0	0	97	97
21.0 Travel and Transportation of Persons	1,894	6,148	7,137	989
22.0 Transportation of Things	170	1,642	1,704	62
23.1 Rental Payments to GSA	7,349	5,911	6,545	634
23.3 Communications, Utilities & Misc. Charges	4,580	1,139	1,434	295
24.0 Printing and Reproduction	393	403	736	333
25.0 Other Services	8,795	8,633	9,471	838
26.0 Supplies and Materials	1,962	361	674	313
31.0 Equipment	437	4,942	6,038	1,096
41.0 Grants, Subsidies And Contributions	0	0	0	0
42.0 Insurance Claims And Indemnities	189	180	180	0
99.0 Sub-total, Direct Obligations	88,454	121,437	136,072	14,635
Unobligated Balances Available SOY (-)	(843)	(449)		449
Unobligated Balances Available EOY (+)	449			
Unobligated Balances Lapsing	203			
TOTAL BUDGET AUTHORITY	88,463	120,988	136,072	15,084

Internal Revenue Service
Administration and Management

Detail of Permanent Positions

	Actual 1989	Authorized 1990	Estimated 1991
Executive Level	2	2	2
Subtotal	2	2	2
Senior Executive Service 1	5		
Senior Executive Service 2	2	4	4
Senior Executive Service 3	2	3	3
Senior Executive Service 4	12	25	25
Senior Executive Service 5	2	4	4
Senior Executive Service 6	1	1	1
Subtotal	24	37	37
GS/GM-16	3	3	3
GS/GM-15	61	86	84
GS/GM-14	170	179	177
GS/GM-13	295	318	312
GS-12	145	299	301
GS-11	28	541	524
GS-10	6	5	5
GS-9	53	498	502
GS-8	23	24	24
GS-7	91	74	74
GS-6	93	74	78
GS-5	64	125	140
GS-4	44	29	33
GS-3	10	6	6
GS-2	1		
GS-1	1		
Subtotal	1,088	2,281	2,341
Ungraded	41	40	40
Total permanent positions	1,155	2,340	2,420
Unfilled positions, end of year	(2)	(3)	(3)
Total permanent employment end of year	1,153	2,337	2,417

January 29,1990

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Administration and Management, Internal Revenue Service

AVERAGE GRADES AND SALARIES

	Appropriation FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES Salary	$75,500	$78,200	$78,200
Average GS Grade	11.43	11.03	10.89
Average GS Salary	$31,738	29,891	33,555
Average Salary of Ungraded positions	$26,950	$19,429	$20,133

January 29,1990

THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1990
(Dollars in thousands)

	Perm. Pos.	FTE Pos.	Amount
1990 Appropriation (P.L. 101-136) Enacted by the Congress	30,012	27,507	1,942,583
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill			
FY 1990 Rescissions (P.L. 101-164) Enacted in Transportation Bill			(2,974)
Sequestration (P.L. 99-177)			(35,300)
Staff reductions to absorb increased pay costs	(437)	(437)	
Internal transfers (restructure comparability) and reallocations	(4,111)	(3,438)	(361,696)
Transfer to Inspector General's Office	(5)	(5)	(519)
Authorized Level for FY 1990	25,459	23,710	1,356,497
Estimate, FY 1991	25,433	23,755	1,444,517

BUDGET OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1991

	Appropriation FY 1990		Authorized Level FY 1990		Budget Estimate FY 1991		Increase or Decrease (-) for 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Returns processing and revenue accounting	18,915	1,104,110	15,583	1,010,524	15,718	1,094,972	135	76,548	283	11,000	(348)	65,548
2. Statistics of income		—	944	19,305	944	20,168	0	863				863
3. Taxpayer service	6,073	358,010	7,307	317,790	7,453	330,297	(99)	12,560	15	950	(114)	11,950
4. Computer services	6,686	494,715										
Unobligated balance		1,681										
Unobligated balance available start of year		(19,454)										
Unobligated balance available end of year		11,237										
Total appropriation, authorized level and budget estimate	41,394	2,030,004	23,710	1,356,497	23,755	1,444,517	36	88,020	298	11,950	(362)	78,370
Permanent positions	29,886		25,459		25,433		(46)		279		(434)	

BUDGET EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Internal Processing and Revenue Accounting			Statistics of Income			Taxpayer Service			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
PROGRAM CHANGES:												
1. Collection of additional tax revenue												
a. Collection of unpaid taxes		20	850				15	15	850	15	41	1,500
b. Field audits	2	17	350							2	17	350
c. Monitoring dependency compliance	60	64	1,000							60	64	1,000
d. Monitoring mortgage tax credit compliance	0	0	300							0	0	300
e. Monitoring non-custodial dependency compliance	200	270	7,700							200	270	7,700
Subtotal, Collection of additional tax revenue	302	303	11,000				15	15	850	375	390	11,850
Subtotal, Program changes	302	303	11,000				15	15	850	375	390	11,850

Processing Tax Returns and Assistance, Internal Revenue Service

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Returns Processing and Revenue Accounting			Statistics of Income			Taxpayer Service			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
OTHER CHANGES:												
A. Increases necessary to maintain current levels												
1. Within-grade salary increase			2,613			32			1,110			3,754
2. January 1991 pay raise allowance			16,091			511			6,052			22,654
3. GS/GM pay raise (P.L. 101-194)			631									631
4. Extra day's pay			2,809			98			967			3,842
5. Health and other benefits increases			5,890			131			1,981			7,863
6. Increased cost of FERS/growing participation			10,000									10,000
7. Space rent adjustment			1,560						365			1,951
B. Inflation adjustments:												
a. Travel and transportation of persons			317			13			1,139			1,447
b. Transportation of things			1,335			9						1,334
c. Rental payments to GSA			6,306			97			2,310			8,601
d. Rent, communications and utilities			810			15			1,739			2,545
e. Printing and reproduction			8,803			94			671			9,527
f. Other services			2,943			34			935			3,891
g. Supplies and materials			844			5			169			818
h. Equipment			741			9			639			1,399
Subtotal, inflation adjustment			31,907			103			7,041			39,213
C. Annualizations												
a. Annualization of FY 1990 revenue initiative	80		1,971						305	80		2,277
b. January 1990 pay raise annualization			5,535			181			1,770			7,474
Subtotal, annualizations	80		7,507			181			2,083	80		9,751
D. ADP recapitalization	(32)	(30)	(912)				(11)	(10)	(303)	(43)	(40)	(1,215)
Subtotal, Maintaining current levels	(32)	30	60,033			1,004	(11)	(10)	10,737	(43)	20	66,444

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SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Returns Processing and Revenue Accounting			Statistics of Income			Taxpayer Service			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
OTHER CHANGES (continued):												
B. Workload growth increases:												
1. Process additional returns and supplemental documents	188	157	5,303							188	157	5,303
2. Tax forms printing			1,128									1,128
3. Postage			999									999
Subtotal, Workload growth increases	188	157	7,530							188	157	7,530
Subtotal, Increases	334	187	78,143			1,904	(11)	(15)	15,737	323	177	95,964
C. Non-recurring costs, savings and reductions												
1. Non-recurring costs:												
a. Non-recurring equipment			(565)						(1,153)			(1,718)
b. Non-recurring training			(87)						(627)			(694)
c. Non-recurring communications			(17)						(36)			(53)
d. Non-recurring space and leasing			(304)						(975)			(1,949)
Subtotal, Non-recurring costs			(911)						(2,994)			(3,905)
2. A-76 savings	(141)	(141)	(1,177)							(141)	(141)	(1,177)
3. Program reductions to offset pay costs	(282)	(282)	(10,483)			(301)	(112)	(112)	(4,104)	(604)	(604)	(14,787)
Subtotal, Non-recurring costs and savings	(423)	(423)	(12,478)			(301)	(112)	(112)	(5,798)	(545)	(545)	(19,488)
D. Transfers to/from other agencies:												
1. Transfer to Inspector General (non.)	(3)	(3)	(135)							(3)	(3)	(135)
Subtotal, Reductions	(426)	(426)	(12,606)			(301)	(112)	(112)	(5,798)	(547)	(547)	(19,594)
Subtotal, Other changes	(301)	(301)	65,540			603	(133)	(122)	11,939	(434)	(370)	76,379
Total, Increases or Decreases in FY 1991 Compared with FY 1990 Authorized Level	91	136	74,540			903	(107)	(137)	12,540	(48)	33	88,039

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

The Processing Tax Returns and Assistance appropriation provides funding for three activities: Returns Processing and Revenue Accounting, Statistics of Income and Taxpayer Service.

The Returns Processing and Revenue Accounting activity provides resources to process tax returns, account for tax revenues, and issue refunds and notices. Processing performed by this activity is basic to tax administration and provides necessary input to almost all other Internal Revenue Service programs. This activity funds the ten IRS service centers and includes part of the office of the Assistant Commissioner (Returns Processing), the Returns Processing and Accounting Division in the National Office and the counterpart Assistant Regional Commissioners in the seven regional offices.

The Statistics of Income activity publishes Statistics of Income reports on the operation of income tax laws, as required by the Internal Revenue Code for the Congress and its committees; for administrative use by the Secretary of the Treasury and the Commissioner of Internal Revenue; and for the Federal benchmark statistical programs on income, wealth and finance.

The Taxpayer Service activity provides information and assistance to taxpayers to help them comply with the laws. Personnel in the district offices who have direct contact with taxpayers and managerial and program development staff in the National Office and in regional offices are funded under this activity.

The request for the three activities financed under the Processing Tax Returns and Assistance appropriation totals 33,755 average positions and $1,444.5 million, a net increase of 36 average positions and $88.0 million from the FY 1990 revised level.

1. Returns Processing and Revenue Accounting

The Returns Processing and Revenue Accounting activity provides for the accounting of tax revenues and the processing of tax returns and related documents at the IRS service centers.

Processing Tax Returns and Assistance, Internal Revenue Service

The Returns Processing and Revenue Accounting activity has a number of major responsibilities:

-- depositing tax receipts and maintaining general and subsidiary ledgers of tax revenue collected;

-- processing tax returns, supplemental documents, federal tax deposits and associated documents;

-- math verification of returns and computing tax liability;

-- providing tax data for individual and business master files;

-- issuing tax bills and notices of delinquency, and establishing delinquent accounts;

-- issuing refunds and preventing duplicate refund payments;

-- answering taxpayer inquiries for account information, refund status, extensions of time to file, etc.;

-- operating the Service's internal reporting system and providing statistical information for management control purposes.

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Processing Tax Returns and Assistance, Internal Revenue Service

The establishment of national master files of tax accounts through data processing has improved voluntary compliance, and provides more equitable treatment of taxpayers. The following table illustrates the benefits to taxpayers and to the Government from math verification and validation of estimated payments.

MATH VERIFICATION AND VALIDATION
OF ESTIMATED PAYMENTS 1/

Fiscal Year	Underpayments (millions)	Overpayments (millions)	Offsets 2/ (millions)	Gross Yield 3/ (millions)	Net Yield 4/ (millions)
1989	$3,700.8	$2,959.4	$1,471.7	$ 8,131.9	$2,213.1
1988	$3,406.2	$3,241.4	$1,350.0	$ 7,997.6	$1,514.8
1987	$4,681.7	$3,838.8	$1,602.0	$10,202.5	$2,524.9
1986	$3,989.7	$2,193.8	$1,319.2	$ 7,502.7	$3,115.1
1985	$5,757.7	$2,825.0	$1,156.9	$ 9,739.6	$4,089.6

1/ This table reflects the results of math verification for individual returns and validation of estimated payments on individual returns. Corporate, Employment, Exempt Organization, Employee Plan, and other types of returns yield minimum amounts.

2/ Offsets are dollars of overpayments applied to existing liabilities.

3/ Gross Yield is the total of underpayments, overpayments and offsets.

4/ Net Yield is the total of underpayments, less overpayments plus offsets.

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January 29, 1990

Processing Tax Returns and Assistance, Internal Revenue Service

FY 1991 Program

The request for Returns Processing and Revenue Accounting totals 25,718 average positions and $1,894.1 million, a net increase of 135 average positions and $74.5 million from the FY 1990 revised level. This net increase reflects the following major adjustments:

A. Collection of Additional Tax Revenues .....303 average positions and $11.0 million

These resources are requested as a Fiscal Year 1991 Revenue Initiative to follow-up on (a) deductions claimed by non-parents under pre-1985 agreements (270 average positions and $7.7 million), (b) discrepancies in tax credit claimed as a result of mortgage interest certificates issued by local housing authorities (6 average positions and $0.2 million), and (c) discrepancies uncovered in the matching of dependent social security numbers to verify the number of dependents (64 average positions and $1.9 million). Additional resources of 43 average positions and $1.2 million are requested as essential processing, clerical support and follow on for the Fiscal Year 1991 Examination and Collection Revenue Initiatives worked in the IRS service centers. In summary, this work should result in the generation of $244 million in additional revenue.

B. Processing of Additional Tax Returns .....157 average positions and $5.4 million

These resources will be used to process 192 million tax returns and 13 million supplemental documents that will be filed in FY 1991, approximately two million more tax returns and almost one million more supplemental documents than expected in FY 1990. The increase will cover the cost to print, distribute and process the additional returns and schedules; issue refunds, notices and tax bills; deposit and credit FTD's; detect duplicate refund payments; and answer taxpayer inquiries for account information and refund status.

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C. A net reduction of 405 average positions results primarily from assigned A-76 cost reductions (-141 average positions) and absorption of the FY 1991 pay raise (-292 average positions). Included in the net $58.1 million increase are funds to supports President mandatory cost increases.

2. Statistics of Income

The Statistics of Income (SOI) activity provides for the compiling and publishing of statistical data with respect to the operation of the tax laws, These statistics are required by Section 6108 of the Internal Revenue Code. The SOI data are used primarily by the Office of Tax Analysis (OTA) in the Office of the Secretary and by the Congressional Joint Committee on Taxation to analyze existing and proposed tax legislation and to help estimate future tax revenue. OTA also uses the data to prepare congressionally-mandated reports and for use in tax treaty negotiations. Another major user is the Bureau of Economic Analysis (BEA) in the Commerce Department which uses SOI data as one of the essential building blocks in preparing estimates for the national income and product accounts.

This activity also develops and evaluates data for upper management on taxpayer filing characteristics based on returns as they are filed and conducts statistical and economic studies for the Office of the Commissioner and for other IRS organizational elements as requested.

FY 1991 Program

The request for Statistics of Income totals 544 average positions and $20.1 million, a net increase of $0.9 million from the FY 1990 revised level. The resources for FY 1991 will be used for abstracting statistical data from scientifically designed samples of tax returns and information documents. Data will then be tabulated, analyzed and published in a series of SOI annual reports for individual and corporate income tax returns and in the quarterly SOI Bulletin (or provided in the form of microdata file for further analysis by authorized users). These reports will include information pertaining to classes of returns and related topics on individuals, sole proprietorships, corporations, partnerships, private foundations, other tax-exempt organizations, sales of capital assets, foreign tax credit, foreign sales corporations, controlled foreign corporations, U.S. possessions' corporation tax credit, high-income individual tax returns, and tax shelters, as well as information on other topics.

3. Taxpayer Service

Resources for Taxpayer Service are used to encourage voluntary compliance with Federal tax laws by informing taxpayers of their responsibilities and providing service to assist taxpayers in meeting their obligations. Individualized direct assistance is given through 32 centralized toll-free telephone sites, at 546 full-time and 56 filing season-only walk-in offices, and through written responses to correspondence inquiries at 63 district offices. Taxpayer Service also provides explanations of IRS procedures and of notices issued by the IRS, and resolves account-related problems. During FY 1989, through use of the Toll-Free System, IRS answered 37 million calls with 2.4 million abandoned calls and 33.8 million busy signals, a majority of which were eventually answered. Group assistance is provided through taxpayer education and taxpayer information programs reaching millions of taxpayers through special seminars, out-reach activities, high school education programs, and through television, radio, and printed media.

In addition, Taxpayer Service develops all Federal tax forms and schedules along with their respective instructions, and produces and distributes taxpayer information publications, which highlight and explain provisions of the tax law as they affect both individual and business taxpayers.

FY 1991 Program

The request for Taxpayer Service totals 7,493 average positions and $330.3 million, a net decrease of 99 average positions and a net increase of $12.6 million, which will allow Taxpayer Service to provide an 80% level of service in conjunction with greater reliance on automated programs. Almost 41 million taxpayers will be served through direct assistance. Taxpayer education programs and automated responses provide information to another 40 million taxpayers. A continuing thrust of the FY 1991 program will be to provide taxpayers with accurate technical assistance and to support volunteer tax assistance programs. Investments in information systems (a $17.4 million program increase) on behalf of this activity should result in significant improvements in quality, such as increased accuracy, and increased productivity. While there is a net decrease in personnel, shifts to a higher percentage of permanent employees should bring on similar effects.

Included in this request are 15 average positions and $0.7 million for support of the IRS' FY 1991 Revenue Initiative to collect unpaid taxes.

January 29, 1990

Processing Tax Returns and Assistance, Internal Revenue Service

The Community Outreach Tax Assistance program will provide tax law information and group tax return preparation assistance at community locations. The IRS's Tax Counseling for the Elderly program will again enter into cooperative agreements with non-profit organizations that provide tax assistance to people age 60 and over. The use of computer-controlled equipment, which provides both tax law information and refund information, will be continued and will be available for use by taxpayers nationwide. Quality assistance will be assured by emphasizing training and managerial reviews of employee performance. Increased emphasis will also be placed on assisting taxpayers in the post-filing period (May through September) by providing complete assistance to taxpayers who receive notices from the IRS or who have account-related problems.

Taxpayer Service communicates directly to about 100 million individual taxpayers and about 3 million partnerships and corporations by issuing free booklets and pamphlets that cover over 100 tax Your Federal Income Tax (over 4 million copies), and Tax Guide for Small Business (about 2 million copies), are just two of the 110 publications supplied to taxpayers, tax practitioners, and employers. Taxpayer Service also produces each week the Internal Revenue Bulletin, the Commissioner's publication for announcing official rulings, procedures and other items of interest to the tax community.

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January 29, 1990

Processing Tax Returns and Assistance, Internal Revenue Service

	1989 Actual	1990 Estimate*	1991 Estimate
Average Positions			
Full-Time Permanent			
Taxpayer Service Specialists	1,267	1,311	1,318
Taxpayer Service Representatives	2,615	2,394	2,409
Other Permanent	2,103	2,111	2,102
All Other			
WAE/Part-time/Temporary	1,958	1,627	1,515
Details			
Revenue Officers	13	9	9
Tax Auditors	24	28	28
Revenue Agents	93	112	112
Total	8,073	7,592	7,493

*Adjusted for comparability to new budget structure.

1991

January 29, 1990

Selected Workload Data 1/
(in thousands of returns)

	FY 1989 Actual	Estimate in FY 1990 Congressional Budget	Current Year's Estimate for FY 1990	FY 1991 Estimate
1. Tax Returns filed:				
a. Individual	110,253	112,777	111,487	111,997
b. Individual Estimated Tax	37,591	39,712	37,220	37,865
c. Fiduciary	2,625	2,525	2,556	2,615
d. Fiduciary Estimated Tax	663	1,297	750	765
e. Partnership	1,788	1,996	2,014	2,033
f. Corporation	4,209	4,316	4,425	4,612
g. Estate Tax	55	56	58	63
h. Gift Tax	121	114	108	113
i. Employment Tax	28,930	29,335	28,699	28,874
j. Exempt Organizations	490	547	524	540
k. Employee Plans	1,633	2,170	1,910	1,953
l. Excise	949	785	934	962
Total Returns	189,307	195,631	190,685	192,393
2. Selected Supplemental Documents	10,260	12,700	12,098	12,802
Grand Total	199,567	208,332	202,783	205,195
3. Individual Refunds Scheduled	79,362	84,027	80,883	81,477

1/ May not add due to rounding.

January 29, 1990

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Processing Tax Returns and Assistance, Internal Revenue Service

	1989 Actual	1990 Estimate*	1991 Estimate
SELECTED WORKLOAD DATA			
(units in thousands)			
Taxpayers Assisted	44,487	41,506	40,981
Tele-Tax Contacts	27,800	30,000	32,000
Total Contacts	72,287	71,506	72,981
Taxpayer Education Programs			
Outreach participants	950	950	950
VITA/TCE participants	2,560	2,560	2,560
Participants in other individual and business programs	165	165	165
Publications ordered for "Understanding Taxes" program	4,200	4,200	4,200
Total Taxpayer Education	7,875	7,875	7,875
Grand Total	80,162	79,381	80,856

*Adjusted for comparability to new budget structure.

January 29, 1990

Processing Tax Returns and Assistance

For necessary expenses of the Internal Revenue Service not otherwise provided for; including processing tax returns; revenue accounting; [computer services;] statistics of income; providing assistance to taxpayers; and hire of passenger motor vehicles (31 U.S.C. 1343(b); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; [$1,946,003,000 of which $156,419,000 shall remain available until expended for tax systems redesign initiatives and of which not to exceed $60,000,000 shall remain available until expended for systems modernization initiatives] $1,444,517,000, of which $3,000,000 shall be for the Tax Counseling for the Elderly Program, no amount of which shall be available for IRS administrative costs. (Treasury Department Appropriations Act, 1990.)

[Of the funds appropriated under this head in the Treasury, Postal Service and General Government Appropriations Act, 1990, $1,499,000 are rescinded.] (Department of Transportation and Related Agencies Appropriations Act, 1990.)

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Processing Tax Returns and Assistance, Internal Revenue Service

SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Increases or Decreases for 1991 Total	Increases or Decreases for 1991 Program Changes	Increases or Decreases for 1991 Other
1. Returns Processing and Revenue Accounting						
Full-time permanent	18,921	16,639	17,367	528	350	178
All other	10,994	8,744	8,351	(393)	33	(426)
Total	29,915	25,583	25,718	135	383	(248)
2. Statistics of Income						
Full-time permanent	0	531	531	0	0	0
All other	0	13	13	0	0	0
Total	0	544	544	0	0	0
3. Taxpayer Service						
Revenue Agents	93	112	112	0	0	0
Revenue Officers	13	9	9	0	0	0
Tax Auditors	24	28	28	0	0	0
Taxpayer Service Reps	2,615	2,394	2,409	15	10	5
Taxpayer Service Specialists	1,287	1,311	1,318	7	4	3
Other Full-Time Perm	2,103	2,111	2,102	(9)	1	(10)
Total Full-Time Perm	6,115	5,965	5,978	13	15	(2)
All other	1,958	1,627	1,515	(112)	0	(112)
Total	8,073	7,592	7,493	(99)	15	(114)
4. Computer Services						
Full-time permanent	5,848	0	0	0	0	0
All other	558	0	0	0	0	0
Total	6,406	0	0	0	0	0
Appropriation Total						
Full-time permanent	30,884	23,335	23,876	541	365	176
All other	13,510	10,384	9,879	(505)	33	(538)
Total	44,394	33,719	33,756	36	398	(362)

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ERRATA

The amount requested for this new account totals $1,444,517,000, $5,224,000 below the amount shown in the President's Budget. The difference reflects the correct alignment of resources among the Service's four operating appropriations. Calculations in preparation for the FY 1991 President's Budget were done prior to the final technical alignment of base resources in the FY 1991 budget, in conjunction with calculations to restructure the IRS appropriations. All program initiatives inherent in the President's Budget are completely unchanged.

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PROCESSING TAX RETURNS AND ASSISTANCE, INTERNAL REVENUE SERVICE

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request, a transfer to the Office of the Inspector General and as a result of other workload and cost changes, the Internal Revenue Service proposes the following adjustments in FY 1990 spending ($000):

Object Classification	President's Budget As Amended	+ or - Congressional Action	+ or - Inspector General Transfer	+ or - Proposed Reprogramming	+ or - Proposed Authorized Level	+ or - Restructure Comparability	Proposed Restructured Level
11.1 Full-Time Permanent Positions	636,010	(8,676)	(280)	23,257	650,311	(120,187)	530,124
11.3 Other than Full-Time Permanent Positions	171,281	(70)	0	34,781	205,992	6,039	212,031
11.5 Other Personnel Compensation	69,284	0	(6)	(16,821)	52,457	(11,176)	41,281
11.8 Special Personal Services Payments	0	0	0	12	12	32	44
11.9 Personnel Compensation (Total)	876,575	(8,746)	(286)	41,229	908,772	(125,292)	783,480
12.1 Civilian Personnel Benefits	147,432	(568)	(104)	54,827	201,587	(25,896)	175,691
13.0 Benefits for Former Personnel	19,897	0	0	0	19,897	(1,392)	18,505
21.0 Travel and Transportation of Persons	37,263	(998)	(28)	(15,565)	20,674	(11,587)	9,087
22.0 Transportation of Things	40,200	0	0	(14,705)	25,495	(2,133)	23,362
23.1 Rental Payments to GSA	118,942	(5,086)	(28)	23,040	136,871	19,630	156,501
23.3 Communications, Utilities & Misc. Charges	192,336	(2,843)	(10)	(43,840)	145,643	(87,072)	58,571
24.0 Printing and Reproduction	92,481	(2,825)	0	(11,050)	78,606	(2,353)	76,253
25.0 Other Services	274,903	(2,567)	(23)	(34,799)	237,514	(205,136)	32,378
26.0 Supplies and Materials	40,882	(1,827)	(2)	(20,497)	18,536	(13,030)	5,506
31.0 Equipment	104,972	(1,925)	(40)	(51,724)	51,283	(37,230)	14,053
41.0 Grants, Subsidies And Contributions	0	0	0	0	0	3,018	3,018
42.0 Insurance Claims And Indemnities	140	0	0	(80)	60	32	92
99.0 Total	1,946,003	(27,382)	(519)	(73,164)	1,844,938	(488,441)	1,356,497
BUDGET ACTIVITY							
RETURNS PROCESSING AND REVENUE ACCOUNTING	1,277,937	(26,807)	($19)	(2,939)	1,247,872	(228,148)	1,019,524
STATISTICS OF INCOME	0	0		0	0	19,265	19,265
TAXPAYER SERVICE	0	(575)		575	0	317,708	317,708
COMPUTER SERVICES	668,066	0	0	(70,800)	597,266	(597,266)	0
TOTAL, PROCESSING TAX RETURNS AND ASSISTANCE	1,946,003	(27,382)	(519)	(73,164)	1,844,938	(488,441)	1,356,497

EXPLANATION OF CONGRESSIONAL ACTION

The FY 1990 Treasury Appropriation included additional funding above the President's Budget as amended to improve drug enforcement. In addition, a reduction to funding levels is reflected due to sequestration.

EXPLANATION OF REPROGRAMMING

1. Absorption of pay raise resulted in a staff reduction (437 FTE) and reductions to support areas.
2. Other cost increases such as currency transaction reporting, tax forms distribution, internal audit, and employee benefits.

EXPLANATION OF RESTRUCTURE COMPARABILITY

1. Appropriation restructuring on a comparable basis with the account proposal for FY 1991.

EXPLANATION OF TRANSFER

Transfer to the Treasury Inspector General.

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Processing Tax Returns and Assistance, Internal Revenue Service

EXPLANATION OF FY 1991 BUDGET INCREASES AND DECREASES

In FY 1991 funding requirements for the Processing Tax Returns and Assistance appropriation are projected to be $1,444,517,000. Total increases of $107,614,000 are offset by $19,594,000 in program reductions, resulting in a net increase of $88,020,000 over the FY 1990 funding level of $1,356,497,000. In addition, total increases of 623 average positions are offset by a reduction of 587 average positions resulting from A-76 savings, ADP reapplications, transfers and program reductions, resulting in a net increase of 36 average positions over the FY 1990 revised level.

PROGRAM CHANGES

Total Requested Program Changes.....398 average positions and $11,650,000

1. Collection of Additional Tax Revenues.....398 average positions and $11,650,000

Resources are requested to enable the IRS to collect additional tax revenues through a package of FY 1991 revenue initiatives. Included in the Processing Tax Returns and Assistance appropriation are resources for direct implementation of:

a. RPA Pre-1985 Non-Custodial Agreement Initiative: A Returns Processing initiative to follow up on information provided on tax returns in order to validate taxpayer deductions. With 270 average positions and $7.700 million (along with resources requested in the narrative for the Tax Law Enforcement appropriation), the IRS will validate deductions claimed for dependents by non-custodial parents under pre-1985 agreements. It is estimated that this will result in the collection of $173 million in additional taxes in FY 1991.

b. RPA Dependent SSN Matching Initiative: A Returns Processing initiative to increase document matching and follow-up of dependent Social Security provided on tax returns. With 64 average positions and $1.900 million (along with resources requested in the narrative for the Tax Law Enforcement appropriation), the IRS will collect an estimated $58 million in FY 1991.

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c. RPA Mortgage Interest Credit Initiative: A Returns Processing initiative to follow up on information provided on tax returns to determine the validity of tax credits claimed for mortgage interest. With 6 average positions and $0.200 million (along with resources requested in the Tax Law Enforcement appropriation), the IRS will collect an estimated $18 million in additional tax collections in FY 1991.

Resources are also requested in the Processing Tax Returns and Assistance appropriation for essential processing and clerical support of two other revenue initiatives that are being requested in the Tax Law Enforcement appropriation. These are:

a. Collection of Unpaid Taxes: Returns Processing and Taxpayer Service requires 41 average positions and $1.500 million to support this initiative described in the narrative for the Tax Law Enforcement appropriation.

b. Examination Field Audits: Returns Processing will require 17 average positions and $0.350 million to support this initiative described in the narrative for the Tax Law Enforcement appropriation.

The increases for collecting additional tax revenues are distributed into the following object classes:

Personnel Services	$ 6,640,000
Travel and Transportation of Persons	233,000
Transportation of Things	233,000
Communications, Utilities, and Other Rent	1,748,000
Printing and Reproduction	466,000
Other Services	1,398,000
Supplies and Materials	233,000
Equipment	699,000
	$11,650,000

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TOTAL OTHER CHANGES.....-362 average positions and $76,370,000

Increases necessary to maintain current levels.....28 average positions and $88,444,000

1. Within Grade Salary Increase.....$ 3,754,000

   Net cost of within grade salary advances requested total $3.8 million.

2. January 1991 Pay Raise Allowance.....$22,855,000

   Resources to fund the January 1991 pay increase.

3. EX/SES Pay Raise (P.L. 101-194).....$ 631,000

   This amount represents newly legislated requirements for pay increase for EX and SES executives.

4. Extra Day's Pay.....$ 3,642,000

   This adjustment reflects the cost of personnel compensation and benefits for one additional work day in FY 1991.

5. Health and Other Benefits Increases.....$ 7,862,000

   The Office of Personnel Management (OPM) projects a 15% increase in employee benefits.

6. Increased costs of FERS/Growing Participation.....$10,000,000

   The IRS continues to reflect a significantly larger percentage of Federal Employee Retirement System (FERS) employee than other Federal agencies. As of August, 1989, 53% of IRS employees are covered under FERS. Increased funding is necessary to cover the Government's share of FERS cost increases generated by increasing employee population.

7. Space Rent Adjustment.....$ 1,951,000

   Represents the increase of GSA rent rate from 4.4% to 5.4%.

8. Increased Costs due to Inflation.....$29,213,000

a. Increased cost of travel.....$ 1,447,000

GSA estimates a 6.5% increase for per diem and motor pool. The deflator of 4.2% has been applied to all other.

b. Increased cost of transportation of things.....$ 1,334,000

The deflator of 4.2% has been applied to the base.

c. Increased cost of rent, communications and utilities.....$11,006,000

GSA estimates a 4.4% increase for rent, communications, and utilities.

d. Increased cost of printing and reproduction.....$ 9,637,000

The Government Printing Office (GPO) projects a 7% increase for printing and reproduction.

e. Increased cost of other services.....$ 3,601,000

The deflator of 4.2% has been applied to the base.

f. Increased cost of supplies and materials.....$ 818,000

The deflator of 4.2% has been applied to the base.

g. Increased cost of equipment.....$ 1,370,000

GSA estimates a 5% increase for vehicle purchases. The deflator of 4.2% has been applied to all other equipment.

9. Annualizations.....68 average positions and $ 9,751,000

27-962 O—90——44

a. Annualization of FY 1990 Revenue Initiative.....68 average positions and $ 2,277,000

Resources are requested to enable the IRS to collect additional tax revenues through funding the full-year cost of the FY 1990 revenue initiatives that were not begun until mid-FY 1990. The resources requested are to annualize the FY 1990 FTD Penalty initiative. The FY 1990 Dependency Compliance initiative, and support of other FY 1990 initiatives contained in the Tax Law Enforcement appropriation.

b. January 1990 Pay Raise.....$ 7,474,000

This amount represents personnel compensation and benefits annualized for the FY 1990 pay raise.

10. ADP Reapplication.....-40 average positions and -$ 1,215,000

Redirection of resources to the Integrated Telecommunications Service project because the responsibility for the Field and National Office telecommunications program has been transferred to Computer Services.

Workload Growth.....157 average positions and $ 7,520,000

1. Process additional returns and supplemental.....157 average positions and $ 5,393,000 documents.

Additional resources are requested for staff increases in uncontrollable workload (processing tax returns and issuing refunds). Primary tax returns are expected to reach 192.4 million in FY 1991 - up 1.7 million (0.9%) over the FY 1990 Current Year's estimate of 190.7 million. Supplemental documents (amended returns, extensions to file, etc.) are projected to reach 12.8 million over the FY 1990 level of 12.1 million.

2. Tax forms printing.....$ 1,127,000

Additional resources are requested to cover increased printing of tax forms and publications related to taxpayer population growth.

3. Postage.....$ 1,000,000

Additional resources are requested to cover increased postage of tax forms and publications related to taxpayer population growth.

Non-recurring, savings and reductions.....-545 average positions and -$19,469,000

1. Non-recurring.....-$ 3,505,000

   a. Non-recurring one-time expenses.....-$ 1,787,000

      Eliminates one-time training, communications and space alterations costs incurred in FY 1990 initiatives.

   b. Non-recurring cost of equipment.....-$ 1,718,000

      Eliminates one-time equipment costs incurred in FY 1990.

2. Savings.....-141 average positions and -$ 3,505,000

   a. A-76.....-141 average positions and -$ 1,177,000

      Anticipated savings are based on A-76 program review.

3. Reductions.....-404 average positions and -$14,787,000

   a. Program reduction to offset pay costs.....-404 average positions and -$14,787,000

      Reduction necessary to offset January 1, 1991 pay increase.

Tranfers to other agencies.....-2 average positions and -$ 125,000

1. Inspector General (annualization).....-2 average positions and -$ 125,000

   Pursuant to Public Law 100-504 these resources are being transferred to the Office of Inspector General to perform a level of oversight over IRS inspections and to investigate cases of notoriety and allegations of abuse by IRS senior officials.

Standard Classification Schedule
(Direct Obligations Only)

	Appropriation 1989	Authorized Level 1990	Budget Estimate 1991	1991 Increases over 1990
Total number of permanent positions	29,805	25,459	25,413	(46)
Full time equivalent (FTE) workyears	44,394	33,719	33,755	36
11.1 Full-Time Permanent Positions	587,803	530,124	553,441	23,317
11.3 Other than Full-Time Permanent Positions	172,580	212,031	216,392	4,361
11.5 Other Personnel Compensation	46,533	41,281	42,315	1,034
11.8 Special Personal Services Payments	88	44	44	0
11.9 Personnel Compensation (Total)	806,984	783,480	812,192	28,712
12.1 Civilian Personnel Benefits	172,257	175,691	199,232	23,541
13.0 Benefits for Former Personnel	17,674	18,505	18,622	117
21.0 Travel and Transportation of Persons	19,341	9,087	10,395	1,308
22.0 Transportation of Things	27,945	23,362	24,929	1,567
23.1 Rental Payments to GSA	101,981	156,501	168,481	11,980
23.3 Communications, Utilities & Misc. Charges	182,083	63,033	62,116	(917)
24.0 Printing and Reproduction	76,139	76,253	86,458	10,205
25.0 Other Services	188,499	37,103	36,669	(434)
26.0 Supplies and Materials	34,246	5,787	6,735	948
31.0 Equipment	51,635	15,822	15,578	(244)
41.0 Grants, Subsidies And Contributions	0	3,018	3,018	0
42.0 Insurance Claims And Indemnities	41	92	92	0
99.0 Sub-total, Direct Obligations	1,678,825	1,387,734	1,444,817	76,783
Unobligated Balances Available SOY (-)	(18,458)	(11,237)		11,237
Unobligated Balances Available EOY (+)	11,237			
Unobligated Balances Lapsing	1,481			
TOTAL BUDGET AUTHORITY	1,672,085	1,386,497	1,444,817	88,020

Internal Revenue Service
Processing Tax Returns and Assistance

Detail of Permanent Positions

	Actual 1989	Authorized 1990	Estimated 1991
Senior Executive Service 1	6		
Senior Executive Service 2	4	2	2
Senior Executive Service 3	13	12	12
Senior Executive Service 4	28	23	23
Senior Executive Service 5			
Senior Executive Service 6	2		
Subtotal	53	37	37
GS/GM-16			
GS/GM-15	194	36	39
GS/GM-14	673	153	165
GS/GM-13	1,942	542	415
GS-12	2,347	691	680
GS-11	1,607	697	684
GS-10	433	216	214
GS-9	1,512	1,990	2,016
GS-8	1,272	590	584
GS-7	4,352	2,289	2,430
GS-6	4,487	2,916	2,892
GS-5	4,061	8,710	8,719
GS-4	5,403	4,213	4,177
GS-3	1,370	2,172	2,153
GS-2	31	19	19
GS-1	17	3	4
Subtotal	29,701	25,237	25,191
Ungraded	51	185	185
Total permanent positions	29,805	25,459	25,413
Unfilled positions, end of year	(28)	(30)	(30)
Total permanent employment end of year	29,777	25,429	25,383

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Processing Tax Returns and Assistance, Internal Revenue Service

AVERAGE GRADES AND SALARIES

	Appropriation FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES Salary	$70,500	$75,664	$75,664
Average GS Grade	8.27	6.12	6.10
Average GS Salary	$23,030	$18,200	$18,174
Average Salary of Ungraded positions	$22,727	$20,989	$20,989

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THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1990
(Dollars in thousands)

	Perm. Pos.	FTE	Amount
1989 Appropriation (P.L. 101-136) Enacted by the Congress	61,536	62,945	1,911,3..
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill			(5,212)
FY 1990 Rescissions (P.L. 101-164) Enacted in Transportation Bill			(29,004)
Sequestration (P.L. 99-177)	(737)	(737)	
Staff reductions to absorb increased pay costs	(740)	(740)	
Internal transfers (restructure comparability) and reallocations	30,791	31,864	1,305,350
Transfer to Inspector General's Office	(11)	(11)	(1,030)
Authorized Level for FY 1990	70,940	71,811	3,180,525
Estimate, FY 1991	72,563	74,173	3,500,484

DIGEST OF BUDGET ESTIMATES BY APPROPRIATING FISCAL YEAR 1991

	Appropriation FY 1990		Authorized Level FY 1990		Budget Estimate FY 1991		Increase or Decrease (-) for 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
1. Examination	33,484	1,668,946	31,392	1,423,693	32,335	1,597,884	1,943	173,391	1,942	110,345	(800)	55,140
2. Appeals, tax litigation and technical	6,227	316,788	6,254	342,194	6,335	365,625	81	23,431	85	3,360	16	20,075
3. Employee plans and exempt organizations	2,947	125,972	2,991	134,327	2,950	139,300	(41)	4,982	1	56	(42)	4,927
4. International	795	38,911	851	48,756	900	54,500	49	5,000			49	5,000
5. Tax fraud and financial investigation	4,903	270,877	4,891	254,814	4,798	279,089	96	25,275	107	21,794	(73)	3,481
6. Collection	29,360	833,990	29,455	814,234	21,811	933,710	1,364	119,480	903	52,210	300	97,270
7. Document matching			5,307	180,779	5,708	190,379	379	10,001			379	10,001
Unobligated balance		2,948										
Total appropriation, authorized level and budget estimate	88,166	3,099,193	71,811	3,180,525	74,573	3,500,484	2,963	319,958	3,171	188,840	(300)	175,310
Permanent positions	74,900		70,940		72,563		1,715		3,326		(1,611)	

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SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Examination			Appeals, Tax Litigation and Technical			Employee Plans and Exempt Organizations			International			Tax Fraud and Financial Investigation			Collections			Document Matching			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
PROGRAM CHANGES:																								
1. Collection of additional tax revenue																								
a. Collection of unpaid taxes				21	20	1,100										821	899	51,600				942	900	52,500
b. Correspondence audits	872	634	36,000																			872	634	36,000
c. Field audits	1,175	1,040	70,345	47	46	2,240	1	1	55				27	24	1,000	27	28	720				1,277	1,139	75,160
d. Claim audits	152	144	7,700																			152	144	7,700
e. Examination contract training			7,500																					7,500
f. Monitoring dependency compliance	21	20	1,000																			21	20	1,000
g. Monitoring mortgage tax credit compliance	6	3	300																			6	3	300
h. Monitoring non-custodial dependency compliance	102	96	4,000																			102	96	4,000
Subtotal, Collection of additional tax revenue	2,130	1,942	110,345	68	66	3,340	1	1	55				27	24	1,000	848	886	52,210				3,171	2,936	175,000
2. Anti-Drug Abuse Act																								
a. Anti-Drug Abuse Act													152	143	10,994							152	143	10,994
Subtotal, Program changes	2,130	1,942	110,345	68	66	3,340	1	1	55				179	167	11,994	848	886	52,210				3,323	3,171	185,994

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Examination			Appeals, Tax Litigation and Technical			Employee Plans and Exempt Organizations			International			Tax Fraud and Financial Investigation			Collections			Document Matching			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
OTHER CHANGES:																								
A. Increases necessary to maintain current levels																								
1. Within-grade salary increase			5,350			1,115			463			80			784			3,863			23			10,906
2. January 1991 pay raise allowance			34,152			7,080			2,867			900			6,374			18,662			4,368			73,668
3. SES/GSA pay raise (P.L. 101-194)			632												632			632						1,888
4. Extra day's pay			6,732			712			370			121			638			2,369						8,946
5. Health and other benefits increase			8,917			1,302			730			307			1,531			6,978			1,630			18,991
6. Advancement of trainees			986						66						317			2,027						3,000
7. 1990 new legislative requirement															3,000									3,000
8. Inter-Activity transfer		(370)	(9,330)																	370	9,330			0
9. Space rent adjustment			1,453			340			110			10			230			845						2,904
10. Inflation adjustments:																								
a. Travel and transportation of persons			2,701			630			310			250			661			513			714			5,865
b. Transportation of things			148												20			16			27			210
c. Rental payments to GSA			5,830			1,233			880			53			1,157			935			1,395			11,273
d. Rent, communications and utilities			184			74												19			38			315
e. Printing and reproduction			801			62									110			364			184			1,507
f. Other services			1,503			387						107			570			637			602			3,294
g. Supplies and materials			310			184									110			130			104			850
h. Equipment			540			241									110			153			148			1,190
Subtotal, inflation adjustment			12,807			3,809			1,904			410			3,764			3,560			2,900			34,512
11. Annualizations																								
a. Annualization of FY 1990 revenue initiative	302		8,025	137		5,395				64		4,300		24	2,307	900		30,630					1,386	82,965
b. January 1990 pay raise annualization			10,756			2,642			990			300			1,582			5,981			1,633			23,370
Subtotal, Annualizations	302		18,180	137		10,037			990	64		4,600		24	3,889	900		65,380			1,633		1,386	86,286
12. ADP reapplication	(75)	(70)	(1,960)	(9)	(9)	(374)							15	15	102	(30)	(30)	(1,004)				(107)	(100)	(3,225)
Subtotal, Maintaining current levels	(75)	(97)	70,954	(9)	139	34,317			6,522	64		6,445	15	39	10,697	(30)	772	79,277		370	16,864	(107)	1,286	231,073
Subtotal, Increases	(75)	(97)	70,954	(9)	139	34,317			6,522	64		6,445	15	39	10,697	(30)	772	79,277		370	16,864	(107)	1,286	231,073

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Examination			Appeals, Tax Litigati and Technical			Employee Plans and Exempt Organizations			International			Tax Fraud and Financial Investigation			Collections			Document Matching			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
OTHER CHANGES (continued):																								
B. Non-recurring costs, savings and reductions																								
1. Non-recurring costs:																								
a. Non-recurring equipment			(133)			(44)			(25)			(58)			(4)			(552)						(705)
b. Non-recurring training			(9)						(16)									(5)						(30)
c. Non-recurring communications			(34)			(2)			(3)			(10)						(77)						(126)
d. Non-recurring space and housing			(101)			(9)			(18)			(36)			(3)			(532)						(698)
Subtotal, Non-recurring costs			(307)			(35)			(62)			(104)			(6)			(1,166)						(1,030)
2. A-76 savings	(294)	(294)	(3,056)													(152)	(152)	(1,369)				(446)	(446)	(3,724)
3. Program reductions to offset pay costs	(516)	(516)	(18,021)	(113)	(113)	(4,137)	(42)	(42)	(1,533)	(15)	(15)	(538)	(111)	(111)	(4,071)	(259)	(259)	(9,407)				(1,056)	(1,056)	(38,677)
Subtotal, Non-recurring costs and savings	(810)	(810)	(21,043)	(113)	(113)	(4,143)	(42)	(42)	(1,595)	(15)	(15)	(642)	(111)	(111)	(4,077)	(411)	(411)	(11,032)				(1,501)	(1,501)	(44,431)
C. Transfers to other agencies:																								
1. Inspector General (consolidation)	(3)	(2)	(135)													(1)	(1)	(89)				(3)	(3)	(194)
2. Justice (OCDE)															(12,129)									(12,129)
Subtotal, Transfers to other agencies	(3)	(2)	(135)												(12,129)	(1)	(1)	(89)				(3)	(3)	(12,323)
Subtotal, Reductions	(813)	(813)	(21,708)	(113)	(113)	(4,142)	(42)	(42)	(1,595)	(15)	(15)	(642)	(111)	(111)	(16,206)	(412)	(412)	(13,001)				(1,504)	(1,504)	(56,754)
Subtotal, Other changes	(807)	(800)	$6,148	(131)	18	39,975	(42)	(42)	6,027	(15)	60	5,845	(98)	(72)	3,691	(454)	300	87,276	379	10,001		(1,811)	(200)	175,159
Total, Increases or Decreases in FY 1991 Compared with FY 1990 Authorized Level	1,343	1,043	173,391	(53)	81	33,421	(41)	(41)	4,993	(15)	60	5,845	83	95	25,275	606	1,366	119,466	379	10,001		1,715	1,962	379,960

SUMMARY JUSTIFICATION OF FY 1991 BUDGET ESTIMATES

The Tax Law Enforcement appropriation provides funding for seven activities: Examination; Appeals, Tax Litigation, and Technical; Employee Plans and Exempt Organizations; International; Tax Fraud and Financial Investigation; Collection; and Document Matching.

Examination is the Internal Revenue Service's primary program for determining taxpayers' correct income levels and corresponding tax liability. Examination audits taxpayers' financial records to verify reported income and deductions, to uncover unreported income, and to validate exemptions, deductions and credits. Examination comprises the Office of the Assistant Commissioner (Examination) at the National Office, the offices of the Assistant Regional Commissioners (Examination), and Examination personnel in district offices and service centers.

Appeals, Tax Litigation, and Technical, under the Office of the Chief Counsel, deals primarily with taxpayers' disagreements with examination results as well as providing technical and legal support. The Appeals function provides an administrative review with the objective of reaching impartial settlement. Appeals activities are performed in seven Regional Director of Appeals offices and forty-five other Appeals offices. National Office Appeals Division provides functional direction for those cases that cannot be resolved through the Appeals process. The Tax Litigation function represents the Internal Revenue Service in the Tax Court. Tax Litigation activities are performed in seven Regional Counsel offices and fifty-four District Counsel offices. The National Office Tax Litigation Division provides functional direction to attorneys representing the Commissioner in Tax Court proceedings conducted throughout the United States. The Technical function, including Enforcement Litigation, provides legal support for the Tax Fraud and Collection activities. Technical prepares and reviews proposed legislation and regulations, interprets tax statutes, and provides general legal advice within the Internal Revenue Service. Legal and support staff in this function are in district and regional offices and in the National Office.

Employee Plans and Exempt Organizations is responsible for maintaining compliance with certain tax laws by monitoring employee pension plans, by determining the qualifications of organizations seeking tax-exempt status, and by examining the returns of exempt organizations. The Employee Plans function is mainly staffed at seven key districts and several associate districts with managerial and program development staff in regional offices and at the National Office. The Exempt Organizations function, which monitors organizations exempt from federal income tax, funds auditors in district offices along with managerial and program development staff in regional offices and at the National Office. Functional supervision for both programs is provided by the Assistant Regional Commissioner (Examination) in each region and by the Assistant Commissioner (EP/EO) in the National Office.

International is responsible for directing IRS enforcement and assistance programs as they relate to U.S. taxpayers performing business or residing outside the continental United States and to non-resident aliens with U.S. tax obligations. International provides technical tax training and administrative assistance to foreign governments. The Commonwealth of Puerto Rico, the Virgin Islands and certain Pacific island jurisdictions receive technical support in the areas of compliance and taxpayer service. In conjunction with the Assistant Commissioner (International), the International Counsel identifies and resolves international tax issues, provides timely guidance to field offices through program assistance as well as taxpayers and tax practitioners through the rulings and regulations program.

Tax Fraud and Financial Investigation investigates criminal violations of internal revenue laws. Tax Fraud investigates cases of suspected intent to defraud, recommends prosecution as warranted, assists in the preparation and trial of criminal tax cases, and investigates money laundering schemes through the use of currency transaction reports. This activity includes: the Office of the Assistant Commissioner (Criminal Investigation) at the National Office; the offices of the Assistant Regional Commissioners (Criminal Investigation); and enforcement personnel in district offices and service centers.

Collection collects unpaid accounts, secures unfiled tax returns, and develops and implements programs to prevent accounts becoming delinquent and returns not being filed. Collection personnel in district offices and service centers are funded under this activity, as are managerial and program formulation personnel in the National Office and in regional offices.

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Document Matching matches information returns, such as wage, dividend, and interest (both received and paid) statements, with related individual income tax returns. This enables the Internal Revenue Service to identify income reporting discrepancies, unsubstantiated deductions, the nonfiling of tax returns, and to verify facts and amounts in question through taxpayer contact prior to assessing additional tax or refunding excess credits. This activity is functionally under the direction of the Assistant Commissioner (Examination). Program formulation and management are located in the National Office, while actual processing of returns is performed in the service centers.

The request for the seven activities financed in the Tax Law Enforcement Appropriation totals 74,573 average positions and $3,560.5 million, an increase of 2,962 average positions and $371.0 million from the FY 1990 revised level.

1. Examination

The Examination activity is conducted by Examination Division personnel in district offices and service centers. Functional supervision is provided by the Assistant Commissioner (Examination) in the National Office and by the Assistant Regional Commissioner (Examination) under the Regional Commissioner in each region. The Examination activity supports the mission of the IRS by maintaining an enforcement presence and encouraging taxpayers to correctly report income, estate, gift, employment, and certain excise taxes. IRS believes this should promote the highest degree of public confidence in the tax system's integrity, fairness, and efficiency. Accomplishment of these goals requires:

-- measuring the degree of voluntary compliance as reflected on filed returns;

-- reducing noncompliance by identifying and allocating resources in a cost-effective manner to those returns most in need of examination and taxpayer contact; and

-- conducting, on a timely basis, quality examinations of tax returns and quality taxpayer contacts to determine the correct tax liability.

The Examination program is based primarily on a strategy of optimizing the potential tax yield produced by the application of the requested resources with appropriate efforts to strengthen the relatively low rate of voluntary compliance in some examination classes.

The number of returns filed is increasing yearly, as are the number of methods used by individuals attempting to avoid paying the correct amount of tax. Tax laws are continually changing. Despite an expanding and more difficult workload, recommended tax from the Examination program has increased substantially in recent years, reflecting improvements in effectiveness and efficiency along with the shift of Examination efforts into more complex but also more productive returns.

FY 1991 Program

The request for Examination totals 32,325 average positions and $1,597.1 million, a net increase of 1,043 average positions and $173.4 million over the FY 1990 revised level.

Examination plans to audit 1.4 million returns in district offices and service centers and to make 0.4 million service center contacts.

On the basis of past experience, the IRS estimates the additional tax and penalties recommended from these examinations and contacts in FY 1991 to be $20.7 billion. Some of these estimated assessments ultimately will not be collected from the taxpayers. Among the reasons for this are bankruptcy, the death of the taxpayer, and the growing tendency of taxpayers to formally appeal Examination's recommendations, thereby lengthening the entire process over several years.

All yield estimates in this budget request are based on Examination's historical data bases. For this FY 1991 budget request, IRS has included the revenue effect of the Tax Reform Act of 1986 on the Examination program, which reduced the number and size of taxable income adjustments, thereby decreasing the opportunity for audit revenue gains.

Included in this request are 1,040 average positions and $70.3 million to increase the examination of tax returns in our district offices. Because of the time lapse from initiation of examinations to collections of additional tax due, significant revenues do not accrue until FY 1992 but increase substantially thereafter.

This request also includes 634 average positions and $26.8 million to increase service center correspondence and contact programs, resulting in additional tax collections of $1.6 million in FY 1991 and $10.7 million in FY 1992. Also included is $7.5 million to contract out training for revenue agents, enabling experienced revenue agents to continue examining tax returns and increasing tax collections by $13.8 million in FY 1991. Finally, this request includes an increase of 144 average positions and $7.7 million to audit more taxpayer claims for changes to be made to the originally filed tax returns.

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Tax Law Enforcement, Internal Revenue Service

	1989 Actual	1990 * Estimate	1991 Estimate
Average Positions			
Revenue Agents	16,486	15,549	16,144
Tax Auditors	3,327	3,077	3,027
Tax Examiners	2,107	1,516	1,812
Others	11,564	11,140	11,342
Total	33,484	31,282	32,325
Selected Workload Data (in thousands)			
Returns Filed and Corrected All Types			
Returns filed (prior calendar year)	144,839	147,957	149,917
Examinations	1,144	1,291	1,398
Contacts	412**	212	427
Total	1,556	1,503	1,825
Income, Estate, Gift and Partnership Returns			
Returns filed (prior calendar year)	115,502	118,415	120,274
Examinations	1,071	1,202	1,249
Coverage (%)	0.93	1.02	1.03

* Adjusted for comparability to new budget structure.

** Includes 211,000 Information Returns Program contacts excluded in FY 1990 and FY 1991 because of appropriation restructuring.

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	1989 Estimated Actual	1990 * Estimate	1991 Estimate
Selected Yield Data (billions of dollars)			
Additional Tax Recommended			
Examinations	$21.2	$19.6	$20.3
Contacts	0.5**	0.2	0.4
Total	$21.7**	$19.8	$20.7

* Adjusted for comparability to new budget structure.

** Includes approximately $300 million in Information Returns Program recommendations excluded in FY 1990 and FY 1991 because of appropriation restructuring.

2. Appeals, Tax Litigation, and Technical

Appeals activities are performed in seven Regional Director of Appeals offices and forty-five other Appeals offices under the functional direction of the Office of National Director of Appeals within the Office of the Chief Counsel. The Appeals program offers taxpayers an independent administrative review of contested tax assessements proposed by the Examination activity, of certain penalties assessed by service centers and the Collection program, and certain determinations made by the Employee Plans and Exempt Organizations programs. It provides taxpayers an opportunity to resolve disputes with the least possible delay and encourages compliance by maintaining public confidence in the IRS's ability to administer tax law fairly and impartially.

Tax litigation functions are performed in seven Regional Counsel offices and fifty-four District Counsel offices under the functional direction of the National Office Tax Litigation Division within the Office of the Chief Counsel. Chief Counsel attorneys represent the Commissioner in all Tax Court proceedings conducted throughout the United States. Issues not resolved through the Appeals process must be closed out by District Counsel settlement or by adjudication in the Tax Court. In addition, the attorneys from Chief Counsel provide legal position papers and assistance to Department of Justice attorneys on refund cases, appeal, and certiorari actions, and furnish legal support to the Examination and Appeals operating offices on a day-to-day basis.

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The Enforcement Litigation function in seven Regional Counsel offices and fifty-four District Counsel offices provides legal advice and assistance to field Collection and Tax Fraud Investigations. Enforcement Litigation also supports Internal Revenue Service field offices with legal services in the administrative areas of labor relations, contracting, tort claims, equal employment opportunity, disciplinary matters, disclosure matters under the Freedom of Information Act and the Privacy Act, and tax practitioner discipline.

The Chief Counsel's Technical function in the National Office accomplishes a variety of legal and technical functions that facilitate taxpayer compliance by promoting the uniform interpretation and application of the Federal tax laws. Effective administration of complex tax statutes and collection of tax revenues require that IRS personnel and taxpayers alike understand the application of the Internal Revenue Code to each case.

In accomplishing its Enforcement Litigation and Technical mission, Chief Counsel:

-- provides legal advice and assistance to field enforcement activities;

-- furnishes non-tax legal services;

-- provides legal expertise in the issuance of ruling letters, technical advice, publication of revenue rulings and revenue procedures, review of legislation, interpretation of statutes, and drafting of regulations;

-- issues technical advice to IRS field offices and letter rulings to taxpayers, applying tax laws and regulations to specific issues and cases;

-- publishes precedent rulings and procedures that explain the IRS's position on substantive issues affecting the rights and duties of taxpayers;

-- coordinates tax law interpretations, applications and developments among all affected offices; and

-- identifies and recommends remedial action to correct inconsistencies, abuses and inequities in the application of the tax laws.

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FY 1991 Program

The request for Appeals, Tax Litigation, and Technical totals 6,335 average positions and $365.5 million, a net increase of 81 average positions and $23.4 million over the FY 1990 revised level.

This program level will allow for completion of 52,400 non-docketed work units, 4,400 penalty appeals and Employee Plans and Exempt Organization determination disposals, 42,400 docketed Tax Court and Refund cases, and over 60,600 case closings in the Technical and Enforcement Litigation areas.

Included in this level are 65 average positions and $3.3 million in support of FY 1991 Examination and Collection revenue initiatives.

Average Positions	1989 Actual	1990 * Estimate	1991 Estimate
Appeals, Tax Litigation, and Technical			
Appeals Officers		1,346	1,403
Appeals Auditors		234	244
Attorneys		1,380	1,380
Other		3,294	3,308
Total		6,254	6,335
Appeals and Tax Litigation			
Appeals Officers	1,154		
Appeals Auditors	194		
Attorneys	786		
Other	2,637		
Total	4,771		
Technical and Enforcement Litigation			
Attorneys	698		
Other	758		
Total	1,456		

* Adjusted for comparability to new budget structure.

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Selected Workload Data (In thousands)	1989 Actual	1990 * Estimate	1991 Estimate
Appeals, Tax Litigation, and Technical			
Non-docketed Work Unit Disposals	--	51.4	52.4
Penalty Appeals and DIC Disposals	--	4.4	4.4
Non-docketed Ending Inventory-Work Units/Penalty Appeals	--	45.4	44.4
Docketed Tax Court and Refund Case Receipts	--	35.0	37.0
Docketed Tax Court and Refund Refund Case Closures	--	39.7	42.4
Docketed Ending Inventory	--	61.8	56.4
Technical Case Receipts	--	24.6	25.7
Technical Case Closings	--	14.9	14.9
Technical Ending Inventory	--	23.4	34.2
Enforcement Litigation Case Receipts	--	50.2	53.2
Enforcement Litigation Case Closings	--	40.0	45.7
Enforcement Litigation Ending Inventory	--	38.7	46.2
Appeals and Tax Litigation			
Non-docketed Work Unit Disposals	50.8	--	--
Penalty Appeals and DIC Disposals	4.3	--	--
Non-docketed Ending Inventory-Work Units/Penalty Appeals	45.6	--	--
Docketed Tax Court and Refund Case Receipts	32.9	--	--
Docketed Tax Court and Refund Case Closures	41.6	--	--
Docketed Ending Inventory	66.5	--	--
Enforcement Litigation and Technical			
Technical Case Receipts	22.5	--	--
Technical Case Closings	22.6	--	--
Technical Ending Inventory	13.7	--	--
Enforcement Litigation Case Receipts	50.7	--	--
Enforcement Litigation Case Closings	49.6	--	--
Enforcement Litigation Ending Inventory	28.5	--	--

* Adjusted for comparability to new budget structure.

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3. Employee Plans and Exempt Organizations

The request for Employee Plans and Exempt Organizations totals 2,650 average positions and $129.3 million, a net decrease of 41 average positions and a net increase of $5.0 million compared with the FY 1990 revised level, primarily attributable to inflation and the effects of the pay raise.

A. Employee Plans

The Employee Plans function ensures voluntary compliance with those provisions of the Internal Revenue Code applicable to employee pension plans. This includes processing applications for new and amended pension plans and terminated pension plans within the 270-day declaratory judgement period; issuing opinion letters on qualified master and prototype plans and Individual Retirement Accounts plans; examining returns; providing taxpayer guidance and assistance; issuing rulings to taxpayers; overseeing actuarial determinations and interpretations; providing for the enrollment of actuaries; and coordinating the administration of the Employee Retirement Income Security Act of 1974 with other government agencies.

FY 1991 Program

Field resources will be devoted to handling the very substantial volume of determination letter applications resulting from the passage of the Tax Reform Act of 1986. This act requires the amendment of virtually every qualified retirement plan in order for these plans to retain their qualified status under the Internal Revenue Code. It is estimated that the IRS will review approximately 252,000 employee plan amendments, plan terminations, and new plan applications during the fiscal year. This workload is based on the estimated number of plans that will be amended because of the legislation, the number of plans that will otherwise be amended, a projection of those plans that will be terminated, and the number of new plans that will be submitted. User fees are charged for the issuance of determination letters.

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Field resources will also be used to examine approximately 39,900 employee plan returns to ensure operational compliance with the participation, vesting, funding and other statutory requirements, including excise and unrelated business income taxes. This will provide an examination coverage rate of 3.65 percent. Returns will be selected for examination based upon the use of computer selection criteria, which score the noncompliance potential of the returns filed. Examinations also will be initiated based upon referrals received from the Examination activity and the Department of Labor. The examination program of the Employee Plans activity serves to protect the rights and benefits of all plan participants.

FY 1991 resources also will allow for the processing of approximately 17,500 revenue rulings, revenue procedures, requests for technical advice, taxpayer rulings, opinion letters on the qualification of master and prototype plans and individual retirement account plans, and waivers of minimum funding standards. Workload receipts are expected to be high as a result of the Tax Reform Act of 1986. User fees are also charged for the issuance of taxpayer rulings, opinion letters, and waivers.

B. Exempt Organizations

The Internal Revenue Service monitors organizations that are exempt from federal income tax to ensure their compliance with statutory requirements for exemption. In addition, the IRS provides recognition of exemption and other rulings to those organizations either desiring such determinations or required by statute to obtain them. This is accomplished by providing prompt responses to organizations seeking tax exempt status, by examining exempt organization returns to ensure that various reporting and tax liabilities are satisfied, and by providing the public with guidelines and interpretations of the exempt organizations tax laws. Enforcement activities are coordinated with state and various federal agencies as allowed by law. Because of the size, complexity, amount of assets controlled by exempt organizations, and potential for abuse, a visible IRS oversight presence is necessary.

FY 1991 Program

The requested resources provide staff to issue prompt responses to approximately 54,000 determination letter requests from organizations seeking tax-exempt status and appropriate advance assurance of the deductibility of contributions. The determination program assures that organizations, before being recognized as exempt, are in compliance with the tax laws; strengthens and protects the public confidence in exempt organizations; and generally encourages and enhances future compliance with exemption requirements. Approximately 30 percent of the applications for exemption are not approved. User fees are charged for the issuance of determination letters.

Additionally, the examination of 14,700 exempt organization returns will provide an audit coverage of 3.02 percent. This enforcement activity ensures that exempt organizations continue to meet the statutory exemption requirements, reporting requirements, and various tax liabilities, such as the private foundation excise tax and unrelated business income tax. The examination program involves organizations selected for examination by a computerized system that scores the noncompliance potential of the returns filed. Also examined are specific types of organizations involved in apparent areas of abuse and tax avoidance schemes. The presence of the IRS enforcement arm helps deter and curb misuse of exempt organization assets or funds intended for charitable or other public purposes.

FY 1991 resources also will process 6,500 rulings on applications for exemption and proposed transactions; technical advice and technical assistance to field offices and other National Office components; preparation of Revenue Rulings and Revenue Procedures; responses to Congressional and general technical inquiries; and review of proposed regulations. User fees are also charged for the issuance of rulings.

One average position and $0.1 million are provided to support the FY 1991 Examination District Office Revenue Initiative.

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Tax Law Enforcement, Internal Revenue Service

	1989 Actual	1990 * Estimate	1991 Estimate
Average Positions			
Technical	1,529	1,415	1,403
Other	1,318	1,276	1,247
Total	2,847	2,691	2,650
Selected Workload Data (in thousands)			
Employee Plans			
Determination Letters	94.1	106.4	252.0
Examinations (Returns)	36.7	37.9	39.9
Technical Issues Addressed	10.1	26.3	17.5
Total	140.9	170.6	309.4
Examination Coverage Rate	3.59%	3.58%	3.65%
Exempt Organizations			
Determination Letters	54.8	53.5	54.0
Examinations (Returns)	15.0	14.1	14.7
Technical Issues Addressed	4.9	6.5	6.5
Total	74.7	74.1	75.2
Examination Coverage Rate	3.30%	2.95%	3.02%

* Adjusted for comparability to new budget structure.

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4. International

International provides program leadership for international tax matters, including the development, execution, and evaluation of compliance and assistance programs on a world-wide basis. International accomplishes this by:

-- providing taxpayer assistance and enforcing the U.S. tax laws among U.S. taxpayers abroad (including resident aliens), corporations and businesses whose books and records reside outside the U.S., and non-resident aliens with U.S. source income, by examining returns, collecting delinquent returns and accounts, and investigating suspected criminal activity;

-- providing assistance in tax treaty development and in treaty execution regarding exchanges of information and joint tax administration endeavors with foreign governments, and resolving double taxation cases;

-- providing compliance, taxpayer service and other tax administration support to the Commonwealth of Puerto Rico, the Virgin Islands and certain Pacific island jurisdictions;

-- developing functional guidance for IRS activities on international tax administration issues that have significant implications for the focus and scope of IRS operational programs;

-- coordinating between state tax administrators and the IRS on programs of mutual benefit to both the state and federal government; and

-- providing technical advice and assistance in modernizing and strengthening the tax administration systems of foreign governments, particularly those of developing nations.

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FY 1991 Program

The request for International totals 900 average positions and $55.6 million, a net increase of 49 average positions and $5.8 million over the FY 1990 revised level.

International will increase emphasis on large case corporations, the disposal of additional delinquent returns inventory, the development of non-traditional delinquent returns leads aimed at identifying overseas non-filers, the additional intelligence gathering and analysis of leads on overseas non-filers, and the hiring of competent authority analysts needed to handle additional growth of "double tax" cases with foreign countries resulting from the Tax Reform Act of 1986. In addition, the Service will host the 1991 General Assembly of the Inter-American Center of Tax Administrators (CIAT).

	1989 Actual	1990 * Estimate	1991 Estimate
Average Positions			
Revenue Agents	44	74	93
Revenue Officers	61	110	131
Taxpayer Service Representatives	35	34	34
Taxpayer Service Specialist	6	--	--
Special Agents	3	14	14
Tax Auditors	30	41	40
Attorneys	79	75	74
Internal Auditors	12	--	--
Inspectors	1	--	--
Other Permanent	457	478	489
Other Temporary	33	10	10
C/C Conditional (Temp.)	5	15	15
Total	766	851	900

* Adjusted for comparability to new budget structure.

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Tax Law Enforcement, Internal Revenue Service

	1989 Actual	1990 * Estimate	1991 Estimate
Selected Workload Data (in thousands)			
Examinations	5.1	5.9	6.3
Additional Tax Assessed with Interest/Penalties	$ 54,000	$ 88,000	$105,000
Account Receivable Dispositions (TDA's)	25.4	26.7	27.4
Dollars Collected	$123,000	$124,000	$126,000
Delinquent Returns Secured	45.2	43.6	44.4
Additional Dollars Assessed	$113,000	$109,400	$133,000
Taxpayers Assisted	285	300	300

* Adjusted for comparability to new budget structure.

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5. Tax Fraud and Financial Investigation

Tax Fraud and Financial Investigation is the responsibility of the Criminal Investigation Division in Internal Revenue Service district offices under the functional direction of the Assistant Regional Commissioners (Criminal Investigation) and the National Office Assistant Commissioner (Criminal Investigation).

The overall objective of this activity is to maintain a balanced program of enforcement of criminal statutes relative to tax administration and financial crimes. Enforcement will foster voluntary compliance and ensure public confidence in the Internal Revenue Service. Criminal Investigation has determined that deterrent-impact convictions will replace the past emphasis on prosecution case submissions. Deterrent-impact is determined by specific factors, such as publicity, sentence, significance of investigation, area of non-compliance involved, and geographic, occupational and industry coverage. Additional deterrence in the area of money laundering is fostered through investigations centered on currency transaction reports.

FY 1991 Program

The resources for Criminal Investigation in FY 1991 total 4,786 average positions and $279.9 million, a net increase of 95 average positions and $25.3 million over the FY 1990 revised level. Emphasis will be placed on white collar tax crimes, including money laundering, public corruption, and abusive compliance crimes - particularly with respect to the service center's detection of questionable refund schemes utilizing electronically-filed returns. The Service will continue to commit resources to the total narcotics effort. Additionally, participation will continue in Operation Alliance, a multi-agency drug initiative which investigates narcotics and money laundering activities along the Mexican-U.S. border.

Criminal Investigation will use an additional 143 average positions and $20.0 million to carry out its responsibilities in the areas of international narcotics control, drug trafficking, and money laundering violations as mandated by the Anti-Drug Abuse Act of 1988.

Criminal Investigation will also support the IRS's FY 1991 revenue initiatives with an additional 24 average positions and $1.8 million.

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Tax Law Enforcement, Internal Revenue Service

Average Positons	1989 Actual	1990 * Estimate	1991 ** Estimate
Special Agents	2,995	2,730	2,799
(General Enforcement Program)	(1,506)	(1,379)	(1,366)
(Special Enforcement Program)	(1,489)	(1,351)	(1,433)
Other (Managerial, paraprofessional, administrative and clerical support)	1,868	1,961	1,987
Total	4,863	4,691	4,786
Selected Workload Data			
Tax Fraud Investigations Initiated			
General Enforcement Program	2,863	2,621	2,621
Special Enforcement Program	2,554	2,353	2,497

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* Adjusted for comparability to new budget structure. Excludes 215 special agents and 45 other permanent average positions and 327 investigations initiated that are in the Department of Justice's budget for OCDETF.

** Excludes 327 special agents and 87 other permanent average positions and 559 investigations initiated in Department of Justice's budget for OCDETF.

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6. Collection

The Collection activity has the responsibility to collect unpaid accounts; secure delinquent returns; determine and analyze why accounts become delinquent; develop and implement programs to prevent accounts from becoming delinquent and prevent nonfiling; determine and analyze the reasons for nonfiling; and measure the types and degree of nonfiling.

FY 1991 Program

The proposed budget for Collection totals 21,811 average positions and $933.7 million in FY 1991, a net increase of 1,356 average positions and $119.5 million above the FY 1990 revised level.

In the Accounts Receivable Program, the Service will complete action on some 3.1 million unpaid accounts and collect $15.0 billion in delinquent tax revenues, an increase of $923 million over FY 1990. In addition, the Service will collect revenues of $11.1 billion from initial billings on unpaid accounts, an increase of $581 million over FY 1990.

The Delinquent Returns Program identifies taxpayers who have not complied with their filing requirements. In FY 1991, the requested resources will enable the Service to secure 6.4 million delinquent returns and assess $11.8 billion in unreported taxes, an increase of $422 million over FY 1990.

The Returns Compliance Program identifies taxpayers who have never filed tax returns. Plans call for continued efforts to identify nonfilers in FY 1991 with assessments estimated at $3.0 million, based on securing 3,800 returns.

The Special Compliance Programs (SCP) include programs to investigate underreporting of employment tax liabilities by businesses and to investigate persons who attempt to avoid their tax liabilities through the use of cash exchanges. In FY 1991, we will complete 1,700 SCP cases and assess more than $96 million.

We have expanded our efforts for dealing with taxpayers who will not voluntarily file their returns. Through automated programs, we complete returns for nonresponsive taxpayers based on available information documents.

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FY 1991 Revenue Initiatives

The FY 1991 Accounts Receivable Initiative (970 average positions and $51.5 million) will dispose of an additional 60,151 unpaid accounts and collect an additional $150 million in FY 1991. These resources will provide an additional $200 million in FY 1992 and $400 million in FY 1993 as employees reach the journeyman level of productivity. Also included are 26 average positions and $0.7 million for support and follow-on for the Examination District Office Revenue Initiative.

Tax Law Enforcement, Internal Revenue Service

FY 1991 Revenue Initiatives

The FY 1991 Accounts Receivable Initiative (970 average positions and $51.5 million) will dispose of an additional 60,151 unpaid accounts and collect an additional $150 million in FY 1991. These resources will provide an additional $200 million in FY 1992 and $400 million in FY 1993 as employees reach the journeyman level of productivity. Also included are 26 average positions and $0.7 million for support and follow-on for the Examination District Office Revenue Initiative.

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Tax Law Enforcment, Internal Revenue Service

	1989 Actual	1990 * Estimate	1991 Estimate
Average Positions			
Accounts Receivable	16,439	16,773	18,053
Delinquent Returns Investigations	3,517	3,295	3,363
Returns Compliance Investigations	74	70	72
Special Compliance Investigations	338	317	323
Total	20,368	20,455	21,811
Selected Workload Data (Dollars in millions) (Numbers in thousands)			
Accounts Receivable			
Dollars Collected			
From First Notices	$ 9,662	$10,553	$11,134
From Second-Fifth Notices	6,781	6,650	7,111
From Taxpayer Delinquent Accounts (TDA's)	7,048	7,401	7,863
Total	$23,491	$24,604	$26,108
Account Dispositions (TDA's)	2,847	2,968	3,147
Closing Active Inventory (TDA's)	3,374	3,707	3,983
Revenue in Active Inventory (TDA's)	$18,748	$18,551	$19,936

* Adjusted for comparability to new budget structure.

January 29, 1990

	1989 Actual	1990 * Estimate	1991 Estimate
Delinquent Returns Investigations			
Additional Dollars Assessed	$11,232	$11,377	$11,799
Delinquent Returns Secured	5,459	6,658	6,403
Taxpayer Delinquent Investigations Disposed (TDI's)	1,147	1,162	1,188
Closing Active Inventory	2,067	2,345	2,655
Returns Compliance Program			
Additional Dollars Assessed	$ 3.0	$ 3.0	$ 3.0
Delinquent Returns Secured	4.0	3.8	3.8
Leads Disposed	6.9	7.0	7.1
Special Compliance Program			
Additional Dollars Assessed	$94.0	$94.0	$96.0
Cases Closed	1.7	1.7	1.7

* Adjusted for comparability to new budget structure.

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7. Document Matching

The Document Matching program, also known as the Information Returns Program (IRP), is a computerized correspondence compliance program. Through this program, the Internal Revenue Service matches information returns, such as interest (both received and paid), dividend, and wage statements, with related tax returns. This enables the Service to identify income reporting discrepancies and nonfiling of tax returns.

In the case of underreported income or overreported deductions, taxpayers are contacted to verify facts and amounts in question prior to assessing additional tax or refunding excess credits. Where delinquent returns are detected, inquiries to taxpayers are issued. Through automated programs, returns are completed for unresponsive taxpayers based on available information documents. The cycle of processing and perfecting information returns, comparing them to tax returns, contacting taxpayers, and reconciling discrepencies takes over three years to complete.

Enforcing payer compliance with filing requirements relating to timeliness, inclusion of taxpayer identifying numbers, filing format specifications (optically scannable paper or magnetic media), and application of backup withholding is also an essential part of the overall program. A Payer Master File is maintained to record filing histories, to facilitate analysis of compliance, generate penalty and delinquency notices, and record civil penalties asserted for noncompliance with requirements.

FY 1991 Program

The request for Document Matching totals 5,766 average positions and $199.4 million, a net increase of 379 average positions and $18.6 million over the FY 1990 revised level. Under the revised appropriation structure, all service center processing resources related to the program are included in the single budget activity.

During FY 1991 the Service will receive over 1.1 billion information returns and process 97 to 98 percent of these. Approximately 4 million taxpayers will be contacted through the Underreporter Program for discrepancies involving income and deduction items. Approximately 1.5 million taxpayers will be contacted through the nonfiler program. Assessments from both underreporters and nonfilers will total $3.5 billion. Net assessments and civil penalties after refunds to taxpayers will total $3.4 billion.

	1989 Actual	1990 * Estimate	1991 Estimate
Average Positions			
Tax Examiners	--	131	131
Other Permanent	--	1,983	2,362
Career/Career Cond.	--	3,273	3,273
Revenue Agents	--	--	--
Tax Auditors	--	--	--
Revenue Officers	--	--	--
Taxpayer Service Specialist	--	--	--
Taxpayer Service Representative	--	--	--
Total	--	5,387	5,766

* Adjusted for comparability to new budget structure.

Tax Law Enforcement, Internal Revenue Service

	1989 Actual	1990 * Estimate	1991 Estimate
Selected Workload Data (in millions)			
Information Returns			
Received	--	1,110	1,147
Processed	--	1,097	1,133
Underreporter Notices	--	2.68	4.05
Nonfiler Notices	--	1.40	1.50
Revenue Data (in millions)			
Underreporter Assessments	--	$1,499	$1,750
Nonfiler Assessments	--	1,695	1,780
Total	--	$3,194	$3,530
Underreporter Refunds	--	$ 10	$ 11
Nonfiler Refunds	--	223	228
Total	--	$233	$239
Net:			
Underreporter	--	$1,489	$1,739
Nonfiler	--	1,472	1,552
Civil Penalties	--	250	92
Total	--	$3,211	$3,383

* Adjusted for comparability to new budget structure.

January 29, 1990

SELECTED WORKLOAD DATA
(in thousands)

	1989 Actual	1990 Program: In 1990 Budget	1990 Program: In 1991 Budget	1991 Estimate	Percentage Change Over 1990
1. Examination					
a. Tax Returns Corrected (all types)					
1) Examination	1,144	1,533	1,291	1,398	8.29%
2) Contacts	412	871	212	427	101.42%
Total	1,556	2,404	1,503	1,825	21.42%
b. Income,Estate,Gift Tax and Partnership Returns Corrected					
1) Examination	1,071	1,453	1,202	1,249	3.91%
2. Appeals, Tax Litigation, and Technical					
1) Non-Docketed Work Units Disposals			51.4	52.4	1.95%
2) Penalty Appeals and DIC Disposals			4.4	4.4	0.00%
3) Docketed Tax Court and Refund Case Closures			39.7	42.4	6.80%
4) Enforcement Litigation Case Closings			40	45.7	14.25%
5) Technical Case Closings			14.9	14.9	0.00%

* Includes 211,000 Information Returns Program contacts excluded in FY 1990 and FY 1991 because of appropriation restructuring.

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SELECTED WORKLOAD DATA
(in thousands)

	1989 Actual	1990 Program In 1990 Budget	In 1991 Budget	1991 Estimate	Percentage Change Over 1990
Appeals and Tax Litigation					
a. Appeals					
1) Non-Docketed Work Units Disposals	50.8	49.9			
2) Penalty Appeals and DIC Disposals	4.3	4.4			
b. Tax Litigation					
1) Docketed Tax Court and Refund Case Closures.....	41.6	55.4			
Enforcement Litigation and Technical					
a. Enforcement Litigation Case Closings	49.6	40			
b. Technical Case Closings	22.6	15			

SELECTED WORKLOAD DATA
(Continued)
(in thousands)

	1989 Actual	1990 Program: In 1990 Budget	1990 Program: In 1991 Budget	1991 Estimate	Percentage Change Over 1990
3. Employee Plans and Exempt Organizations					
a. Employee Plans					
1) Determinations	94.1	325.0	106.4	252.0	136.84%
2) Examinations	36.7	35.3	37.9	39.9	5.28%
3) Technical Issues Addressed	10.1	16.7	26.3	17.5	-33.46%
Total	140.9	377.0	170.6	309.4	81.36%
b. Exempt Organizations					
1) Determinations	54.8	61	53.5	54.0	0.93%
2) Examinations	15	14.9	14.1	14.7	4.26%
3) Technical Issues Addressed	4.9	6.7	6.5	6.5	0.00%
Total	74.7	82.6	74.1	75.2	1.48%
4. International (1)					
1) Examinations	5.1	6.3	5.9	6.3	6.78%
2) Accounts Receivable Dispositions.	25.4	33.3	26.7	27.4	2.62%
3) Delinquent Returns Secured	45.2	54.3	43.6	44.4	1.83%
4) Taxpayers Assisted	285	350	300	300	0.00%
5. Tax Fraud and Financial Investigation					
a. Taxpayers in General	2.863	2.686	2.621	2.621	0.00%
b. Special Enforcement Programs	2.554	2.225	2.353	2.497	6.12%
Total	5.417	4.911	4.974	5.118	2.90%

SELECTED WORKLOAD DATA
(in thousands)

	1989 Actual	1990 Program: In 1990 Budget	1990 Program: In 1991 Budget	1990 Program: 1991 Estimate	Percentage Change Over 1990
6. Collection					
a. Accounts Receivable					
1) Closed	2,847	2,960	2,968	3,147	6.03%
2) Outstanding	3,374	3,492	3,707	3,983	7.45%
b. Taxpayer Delinquent Returns Investigations					
1) Returns Secured on Delinquent Returns Investigations	5,459	4,537	6,658	6,403	-3.83%
2) Investigations Outstanding (Close of Year)	2,067	2,462	2,345	2,655	13.22%
c. Returns Compliance Program					
1) Returns Secured	4	3	4	4	0.00%
7. Document Matching Program (in millions)					
a. Information Returns					
1) Received			1,110	1,147	3.33%
2) Processed			1,097	1,133	3.28%
b. Underreporter Notices			2.68	4.05	51.12%
c. Nonfiler Notices			1.40	1.50	7.14%

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SELECTED DATA ON RECOMMENDATIONS, ASSESSMENTS, AND COLLECTIONS
(dollars in billions)
(numbers in thousands)

	1989 Estimated Actual	1990 Program			Percentage Change Over 1990
		In 1990 Budget	In 1991 Budget	1991 Estimate	
1. Additional Tax Recommended by Examination Program					
a. Examinations	$21.2	$20.7	$19.6	$20.3	3.57%
b. Contacts	$0.5	$0.8	$0.2	$0.4	100.00%
Total.....	$21.7	$21.5	$19.8	$20.7	4.55%
2. Additional Tax Assessments from International Program (1)					
a. International Examinations	$0.05	$0.10	$0.10	$0.10	0.00%
b. International Delinquent Returns	$0.10	$0.10	$0.10	$0.10	0.00%
3. Additional Tax Collections from International Program (1)					
a. International Accounts Receivable	$0.1	$0.1	$0.1	$0.1	0.00%

* Includes approximately $300 million in Information Returns Program recommendations excluded in FY 1991 budget because of appropriation restructuring.

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SELECTED DATA ON RECOMMENDATIONS, ASSESSMENTS, AND COLLECTIONS
(dollars in millions)
(numbers in thousands)

	1989 Estimated Actual	1990 Program: In 1990 Budget	1990 Program: In 1991 Budget	1990 Program: 1991 Estimate	Percentage Change Over 1990
4. Accounts Receivable Collected					
From First Notices	$9,662	$9,630	$10,553	$11,131	5.48%
From Second Notices	6,781	7,111	6,650	7,111	6.93%
From Third Notices	7,048	7,776	7,401	7,863	6.24%
5. Delinquent Returns Assessments	$11,232	$9,630	$11,377	$11,799	3.71%
6. Returns Compliance Assessments	$3	$4	$3	$3	0.00%
7. Special Compliance Assessments	$94	$221	$94	$96	2.13%
8. Additional Net Tax Assessments from Document Matching Program					
a. Underreporter			$1,489	$1,739	16.79%
b. Nonfiler			1,472	1,552	5.43%
c. Civil Penalties			250	92	-63.20%

[Examination and Appeals] Tax Law Enforcement

For necessary expenses of the Internal Revenue Service for determining and establishing tax liabilities; [employee plans and exempt organizations; tax litigation;] tax and enforcement litigation; technical rulings; examining employee plans and exempt organizations; investigation and enforcement activities; securing unfiled tax returns; collecting unpaid accounts; the purchase (not to exceed 451, for replacement only, for police-type use), and hire of passenger motor vehicles (31 U.S.C. 1343(b); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; [$1,911,301,000, of which $1,674,000 shall remain available until expended for tax systems modernization initiatives] $3,560,484,000, of which not to exceed $70,000 shall be for official reception and representation expenses in connection with the 1990 General Assembly of the Inter-American Center of Tax Administrators, to be hosted by the United States. (Treasury Department Appropriations Act, 1990.)

[Of the funds appropriated under this head in the Treasury, Postal Service and General Government Appropriations Act, 1990, $3,488,000 are rescinded.] (Department of Transportation and Related Agencies Appropriations Act, 1990.)

Tax Law Enforcement, Internal Revenue Service

SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Increases or Decreases for 1991 Total	Increases or Decreases for 1991 Program Changes	Increases or Decreases for 1991 Other
1. Tax Fraud and Financial Investigation						
Special Agents	2,995	2,730	2,799	69	116	(47)
Other Full-time permanent	1,729	1,936	1,962	26	51	(25)
Total Full-Time Perm	4,724	4,666	4,761	95	167	(72)
All other	139	25	25	0	0	0
Total	4,863	4,691	4,786	95	334	(239)
2. Examination						
Revenue Agents	16,486	15,549	16,144	595	850	(255)
Tax Examiners	2,107	1,516	1,812	296	317	(21)
Tax Auditors	3,327	3,077	3,027	(50)	0	(50)
Other Full-time permanent	10,358	9,955	10,194	239	775	(536)
.otal Full-Time Perm	32,278	30,097	31,177	1,080	1,942	(862)
All other	1,206	1,185	1,148	(37)	0	(37)
Total	33,484	31,282	32,325	1,043	1,942	(899)
3. Appeals and Tax Litigation						
Appeals Officers	1,154	0	0	0	0	0
Auditors	194	0	0	0	0	0
Attorney	786	0	0	0	0	0
Other Full-Time Perm	2,471	0	0	0	0	0
Total Full-Time Perm	4,605	0	0	0	0	0
All other	166	0	0	0	0	0
Total	4,771	0	0	0	0	0
Enforcement Litigation and Technical						
Attorney	698	0	0	0	0	0
Other Full-Time Perm	728	0	0	0	0	0
Total Full-Time Perm	1,426	0	0	0	0	0
All other	30	0	0	0	0	0
Total	1,456	0	0	0	0	0

SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Increases or Decreases for 1991 Total	Increases or Decreases for 1991 Program Changes	Increases or Decreases for 1991 Other
Appeals,Tax Litigation and Technical						
Appeals Officers	0	1,346	1,403	57	15	42
Auditors	0	234	244	10	4	6
Attorneys	0	1,380	1,380	0	18	(18)
Other Full-Time Perm	0	3,149	3,163	14	28	(14)
Total Full-Time Perm	0	6,109	6,190	81	65	16
All other	0	145	145	0	0	0
Total	0	6,254	6,335	81	65	16
4. Employee Plans and Exempt Organization						
Technical	1,529	1,415	1,393	(22)	1	(23)
Other Full-time permanent	1,209	1,207	1,190	(17)	0	(17)
Total Full-Time Perm	2,738	2,622	2,583	(39)	1	(40)
All other	109	69	67	(2)	0	(2)
Total	2,847	2,691	2,650	(41)	1	(42)
5. International						
Revenue Agents	44	74	93	19	0	19
Tax Auditor	30	41	40	(1)	0	(1)
Revenue Officer	61	110	131	21	0	21
Taxpayer Service Rep	35	34	34	0	0	0
Taxpayer Service Spec	6	0	0	0	0	0
Special Agents	3	14	14	0	0	0
Attorney	79	75	74	(1)	0	(1)
Other Full-time permanent	470	478	489	11	0	11
Total Full-Time Perm	728	826	875	49	0	49
All other	38	25	25	0	0	0
Total	766	851	900	49	0	49
6. Collection						
Revenue Agents	0	0	0	0	0	0
Tax Examiners	0	6,302	6,628	326	220	106
Revenue Officers	8,105	8,174	8,801	627	448	179
Other Full-time permanent	11,027	4,504	4,760	256	211	45
Total Full-Time Perm	19,132	18,980	20,189	1,209	879	330
All other	1,236	1,475	1,622	147	117	30
Total	20,368	20,455	21,811	1,356	996	360

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SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Increases or Decreases for 1991 Total	Increases or Decreases for 1991 Program Changes	Increases or Decreases for 1991 Other
7. Document Matching						
Tax Examiners	0	131	131	0	0	0
Other Full-time permanent	0	1,983	2,362	379	0	379
Total Full-Time Perm	0	2,114	2,493	379	0	379
All other	0	3,273	3,273	0	0	0
Total	0	5,387	5,766	379	0	379
Appropriation Total						
Full-time permanent	65,631	65,414	68,288	2,854	3,054	(200)
All other	2,924	6,197	6,305	108	117	(9)
Total	68,555	71,611	74,573	2,962	3,171	(209)

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

ERRATA

The amount requested for this new account totals $3,560,484,000, $60,534,000 above the amount shown in the President's Budget. The difference reflects the correct alignment of resources among the Service's four operating appropriations. Calculations in preparation for the FY 1991 President's Budget were done prior to the final technical alignment of base resources in the FY 1991 budget, in conjunction with calculations to restructure the IRS appropriations. All program initiatives inherent in the President's Budget are completely unchanged.

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January 29, 1990

TAX LAW ENFORCEMENT, INTERNAL REVENUE SERVICE

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request, a transfer to the Office of the Inspector General and as a result of other workload and cost changes, the Internal Revenue Service proposes the following adjustments in FY 1990 spending ($000):

Object Classification	President's Budget As Amended	+ or - Congressional Action	+ or - Inspector General Transfer	+ or - Proposed Reprogramming	+ or - Proposed Authorized Level	+ or - Restructure Comparability	Proposed Restructured Level
11.1 Full-Time Permanent Positions	1,216,678	(12,586)	(560)	107,864	1,311,396	781,707	2,093,103
11.3 Other than Full-Time Permanent Positions..	31,887	0	0	4,608	36,495	55,413	91,908
11.5 Other Personnel Compensation	13,018	5,323	(12)	(2,615)	15,714	27,534	43,248
11.8 Special Personal Services Payments	7,500	0	0	(1,205)	6,295	3,253	9,548
11.9 Personnel Compensation (Total)	1,269,083	(7,263)	(572)	108,652	1,369,900	867,907	2,237,807
12.1 Civilian Personnel Benefits	249,955	73	(208)	21,289	271,109	169,038	440,147
13.0 Benefits for Former Personnel	0	0	0	0	0	1,392	1,392
21.0 Travel and Transportation of Persons	74,245	(445)	(56)	(12,459)	61,285	35,955	97,240
22.0 Transportation of Things	7,802	14	0	(4,943)	2,873	4,251	7,124
23.1 Rental Payments to GSA	126,161	(1,817)	(52)	10,334	134,626	69,644	204,270
23.3 Communications, Utilities & Misc. Charges.	64,666	(1,037)	(20)	5,141	68,752	(21,831)	46,921
24.0 Printing and Reproduction	14,003	(1,105)	0	604	13,502	11,853	25,355
25.0 Other Services	59,273	(543)	(46)	(16,693)	41,991	54,403	96,394
26.0 Supplies and Materials	14,661	(2,127)	(4)	(4,486)	8,044	4,162	12,206
31.0 Equipment	31,310	439	(80)	(21,001)	10,668	9,953	20,621
41.0 Grants, Subsidies And Contributions	0	0	0	0	0	0	0
42.0 Insurance Claims And Indemnities	140	0	0	(100)	40	8	48
99.0 Total	1,911,301	(13,811)	(1,038)	86,338	1,982,790	1,206,735	3,189,525
BUDGET ACTIVITY							
EXAMINATION	1,482,992	(2,791)	(519)	50,645	1,530,327	(106,634)	1,423,693
APPEALS, TAX LITIGATION AND TECHNICAL	259,201	(638)		15,441	274,004	68,100	342,104
EMPLOYEE PLANS AND EXEMPT ORGANIZATIONS	122,797	(174)		5,449	128,072	(3,745)	124,327
INTERNATIONAL	46,311	0		4,076	50,387	(602)	49,785
TAX FRAUD AND FINANCIAL INVESTIGATION	0	12,250		(12,250)	0	254,614	254,614
COLLECTION	0	(22,458)	(519)	22,977	0	814,224	814,224
DOCUMENT MATCHING	0	0		0	0	180,778	180,778
TOTAL, TAX LAW ENFORCEMENT	1,911,301	(13,811)	(1,038)	86,338	1,982,790	1,206,735	3,189,525

EXPLANATION OF CONGRESSIONAL ACTION

The FY 1990 Treasury Appropriation included additional funding above the President's Budget as amended to improve drug enforcement. In addition, a reduction to funding levels is reflected due to sequestration. Also included is the reduction due to the rescission enacted in the Transportation Bill (P.L. 101-164).

EXPLANATION OF REPROGRAMMING

1. Absorption of pay raise resulted in a staff reduction (740 FTE) and reductions to support areas.
2. Other cost increases such as currency transaction reporting, tax forms distribution, internal audit, and employee benefits.

EXPLANATION OF RESTRUCTURE COMPARABILITY

1. Appropriation restructuring on a comparable basis with the account proposal for FY 1991.

EXPLANATION OF TRANSFER

Transfer to the Treasury Inspector General.

January 29, 1990

TLE 1

EXPLANATION OF FY 1991 BUDGET INCREASES AND DECREASES

In FY 1991 funding requirements for the Tax Law Enforcement appropriation are projected to be $3,560,484,000. Total increases of $427,313,000 are offset by $56,354,000 in program reductions, transfers, and non-recurring expenses; resulting in a net increase of $370,959,000 over the FY 1990 revised level. In addition, total increases of 4,566 average positions are offset by a reduction of 1,604 average positions resulting from A-76 savings, transfers, and program reductions resulting in a net increase of 2,962 average positions over the FY 1990 revised level.

PROGRAM CHANGES

Total requested program changes.....3,171 average positions and $195,640,000

The total program changes requested are distributed into the following object classes:

Personnel Services	$144,931,000
Travel and Transportation of Persons	6,631,000
Transportation of Things	34,000
Communications, Utilities, and Other Rent	12,878,000
Printing and Reproduction	1,811,000
Other Services	13,582,000
Supplies and Materials	2,189,000
Equipment	13,584,000
	$195,640,000

1. Collection of Additional Tax Revenues..... 3,028 average positions and $175,656,000

Resources are requested to enable the IRS to collect additional tax revenue through a package of FY 1991 revenue initiatives. Included in the Tax Law Enforcement appropriation are resources for direct implementation of:

a. Collection of Unpaid Taxes: A Collection initiative to lower the inventory and value of outstanding accounts receivable. With an additional 990 average positions and $52.590 million (along with resources requested in the Administration and Management, Processing Tax Returns and Assistance, and Information Systems appropriations), the IRS will close an additional 60,151 accounts and collect an additional $150 million in FY 1991.

b. Examination Field Audits: An Examination initiative to expand the audit program in district offices. With an additional 1,139 average positions and $75,166 million (along with resources requested in the Administration and Management, Processing Tax Returns and Assistance, and Information Systems appropriations), the IRS will expand the auditing of tax returns to increase compliance and raise additional revenue. Due to the time lapse between the initiation of new audits to collection of additional tax due, significant revenues do not accrue until FY 1992 but increase substantially thereafter. It is estimated that this initiative will produce $1.1 billion through FY 1995 in additional tax collections.

c. Examination Correspondence Audits: An Examination initiative to increase service center correspondence audits and contacts. With 634 average positions and $26.800 million (along with resources requested in the Administration and Management appropriation), the IRS will collect an estimated $144 million in additional tax collections in FY 1991.

d. Examination Claim Audits: An Examination initiative to expand the auditing of claims filed against the government by taxpayers due to changes made to originally filed tax returns. With 144 average positions and $7.700 million (along with resources requested in the Administration and Management appropriation), the IRS will expand the auditing of claims starting in FY 1991. As with the Field Audit Initiative, significant revenues do not accrue until FY 1992 when an additional $111 million is estimated to be collected.

e. Examination Contract Training: An Examination initiative to contract out the training of new revenue agents. With $7.500 million, the IRS will be able to replace two thirds of the experienced revenue agents now being used to train new recruits with contracted trainers. This will enable the experienced agents to continue auditing returns resulting in an estimated $14 million in additional tax collections in FY 1991.

Resources are also requested in the Tax Law Enforcement appropriation to support three other revenue initiatives that are being requested in the Processing Tax Returns and Assistance appropriation. These are:

a. RPA Pre-1985 Non-Custodial Agreement Initiative: Examination will require 96 average positions and $4.600 million to support this initiative described in the narrative for the Processing Tax Returns and Assistance appropriation.

b. RPA Dependent SSN Matching Initiative: Examination will require 20 average positions and $1.000 million to support this initiative described in the narrative for the Processing Tax Returns and Assistance appropriation.

c. RPA Mortgage Interest Credit Initiative: Examination will require 8 average positions and $0.300 million to support this initiative described in the narrative for the Processing Tax Returns and Assistance appropriation.

The increases for collecting additional tax revenues are broken down into the following object classes:

Personnel Services	$137,012,000
Travel and Transportation of Persons	5,270,000
Communications, Utilities, and Other Rent	12,295,000
Printing and Reproduction	1,757,000
Other Services	12,296,000
Supplies and Materials	1,756,000
Equipment	5,270,000
	$175,656,000

2. Anti-Drug Abuse Act of 1988.....143 average positions and $19,984,000

Resources are requested to enable the Internal Revenue Service to carry out its responsibilities in the areas of international narcotics control, drug trafficking, and money laundering violations as mandated by the Anti-Drug Abuse Act of 1988.

The increases for the Anti-Drug Abuse Act of 1988 are broken down into the following object classes:

Personnel Services	$ 7,919,000
Travel and Transportation of Persons	1,361,000
Transportation of Things	34,000
Communications, Utilities, and Other Rent	583,000
Printing and Reproduction	54,000
Other Services	1,286,000
Supplies and Materials	433,000
Equipment	8,314,000
	$19,984,000

TOTAL OTHER CHANGES.....-209 average positions and $175,319,000

Increases necessary to maintain current levels.....1,295 average positions and $231,673,000

1. Within-Grade Salary Increase.....$ 10,886,000

Net cost of within grade salary advances requested total $10.9 million.

2. January 1991 Pay Raise Allowance.....$ 73,668,000

Resources to fund the January 1991 pay increase.

3. EX/SES Pay Raise (P.L. 101-194).....$ 1,896,000

This amount represents newly legislated requirements for pay increase for EX and SES executives.

4. Extra Day's Pay.....$ 8,946,000

This adjustment reflects the cost of personnel compensation and benefits for one additional work day in FY 1991.

5. Health and Other Benefits Increases.....$ 18,901,000

The Office of Personnel Management (OPM) projects a 15% increase in employee benefits.

6. Advancement of Trainees.....$ 3,000,000

In accordance with formal Office of Personnel Management training agreements, the Service hires employees in certain occupations at grades below the full working level. Those making satisfactory progress are advanced in grades until they reach the first full working level. Based on prior expansion, it is estimated that these promotions will cost an additional $2.1 million in Collection, $0.226 million in Tax Fraud and Financial Investigations, $0.051 million in Employee Plans and Exempt Organizations, and $0.598 million in Examinations.

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7. AUO New Legislation Requirement.....$ 3,900,000

Public Law 101-173 amends Section 5545 (c)(2) of Title 5, United States Code with respect to the method by which premium pay is determined for irregular, unscheduled overtime duty (Administratively Uncontrollable Overtime -- AUO) performed by a Federal employee. This law will increase the overtime costs of Internal Revenue Service special agents.

8. Inter-activity Transfer.....0 average positions and $ 0

Intra-appropriation transfer to fully fund IRP service center operations in FY 1991.

	Average Positions	Amount
Examination	-379	-8,338
Document Matching	+379	+8,338

9. Space Rent Adjustment.....$ 2,904,000

Represents the increase of GSA rent rate from 4.4% to 5.4%.

10. Increased Costs due to Inflation.....$ 24,512,000

a. Increased cost of travel.....$ 5,855,000

GSA estimates a 6.5% increase for per diem and motor pool. The deflator of 4.2% has been applied to all other.

b. Increased cost of transportation of things.....$ 219,000

The deflator of 4.2% has been applied to the base.

c. Increased cost of rent, communications and utilities.....$11,588,000

GSA estimates a 4.4% increase of rent, communications and utilities.

d. Increased cost of printing and reproduction.....$ 1,507,000

The Government Printing Office (GPO) projects a 7% increase for print and reproduction.

e. Increased cost of other services.....$ 3,294,000

The deflator of 4.2% has been applied to the base.

f. Increased cost of supplies and materials.....$ 850,000

The deflator of 4.2% has been applied to the base.

g. Increased cost of equipment.....$ 1,199,000

GSA estimates a 5% increase for vehicle purchases. The deflator of 4.2% has been applied to all other equipment.

11. Annualizations.....1,395 average positions and $86,285,000

a. Annualization of FY 1990 Revenue Initiative....1,395 average positions and $62,915,000

Resources are requested to enable the IRS to collect additional tax revenues through funding the full year cost of the FY 1990 revenue initiatives that were not begun until mid-FY 1990. The resources requested in the Tax Law Enforcement appropriation are for the annualization of the Examination Service Center initiative, the Accounts Receivable initiative, the International Compliance initiative, the Appeals Inventory initiative, the Delinquent Returns TDI initiative, and the Delinquent Returns SCP initiative.

b. January 1990 Pay Raise Annualization.....$23,370,000

This amount represents personnel compensation and benefits annualized for the FY 1990 pay raise.

12. ADP Reapplication.....-100 average positions and -$ 3,225,000

Included in this amount is the redirection of resources of -93 average positions and -$2.8 million to the Integrated Telecommunications Service ADP project because the responsibility for the field andd National Office telecommunications program has been transferred to Computer Services. Also included are 21 average positions and $0.284 million redirected from the Detroit Data Center Base Staffing project to the Currency Transaction Reports (CTR) function currently housed in Tax Fraud. The redirection of resources of -28 average positions and -$0.681 million from Document Matching to the Martinsburg Computing Center Base Staffing project for the Magnetic Media Reporting program is also included.

Non-recurring costs, savings and reductions.....-1,501 average positions and -$56,160,000

1. Non-recurring..... -$ 1,630,000

   a. Non-recurring one-time expenses.....-$ 844,000

      Eliminates one-time training, space and housing and communication costs incurred in FY 1990 program initiatives.

   b. Non-recurring equipment.....-$ 786,000

      Eliminates one-time equipment cost incurred in FY 1990.

2. Savings.....-446 average positions and -$15,853,000

   a. A-76.....-446 average positions and -$ 3,724,000

      Anticipated savings are based on A-76 program review.

3. Reductions.....-1,055 average positions and -$38,677,000

   a. Program reduction to offset pay costs .....-1,055 average positions and -$38,677,000

      Reductions necessary to offset January 1, 1991 pay increase, and AUO increase.

Transfers to other agencies.....-3 average positions and -$12,323,000

   1. Inspector General (annualization).....-3 average positions and -$ 194,000

      Pursuant to Public Law 100-504 these resources are being transferred to the Office of the Inspector General to perform a level of oversight over IRS inspections and to investigate cases of notoriety and allegations of abuse by IRS senior officials.

   2. Justice (OCDE).....-$12,129,000

      An amount of $12,129 is reduced from IRS base Criminal Investigation funding. However, included in the Department of Justice OCDETF budget increase is a like amount that will be paid to the IRS on a reimbursable basis.

Standard Classification Schedule
(Direct Obligations Only)

	Appropriation 1989	Authorized Level 1990	Budget Estimate 1991	1991 Increases over 1990
Total number of permanent positions	74,980	70,848	72,563	1,715
Full time equivalent (FTE) workyears	68,555	71,611	74,573	2,962
11.1 Full-Time Permanent Positions	2,143,973	2,093,103	2,282,903	189,800
11.3 Other than Full-Time Permanent Positions	89,155	91,908	103,633	11,725
11.5 Other Personnel Compensation	42,180	43,248	53,090	9,842
11.8 Special Personal Services Payments	8,431	9,548	9,548	0
11.9 Personnel Compensation (Total)	2,283,753	2,237,807	2,449,174	211,367
12.1 Civilian Personnel Benefits	437,378	440,147	500,478	60,331
13.0 Benefits for Former Personnel	28	1,392	1,392	0
21.0 Travel and Transportation of Persons	104,673	97,240	112,457	15,217
22.0 Transportation of Things	7,465	7,124	7,348	224
23.1 Rental Payments to GSA	229,831	204,270	231,029	26,759
23.3 Communications, Utilities & Misc. Charges	184,351	48,921	58,982	10,061
24.0 Printing and Reproduction	27,939	25,355	29,256	3,901
25.0 Other Services	92,128	98,394	118,070	19,676
26.0 Supplies and Materials	25,940	12,206	16,837	4,631
31.0 Equipment	36,782	20,621	39,413	18,792
41.0 Grants, Subsidies And Contributions	2,790	0	0	0
42.0 Insurance Claims And Indemnities	208	48	48	0
99.0 Sub-total, Direct Obligations	3,433,286	3,189,525	3,560,484	370,959
Unobligated Balances Available SOY (-)				
Unobligated Balances Available EOY (+)				
Unobligated Balances Lapsing	2,948			
TOTAL BUDGET AUTHORITY	3,436,212	3,189,525	3,560,484	370,959

Internal Revenue Service
Tax Law Enforcement

Detail of Permanent Positions

	Actual 1989	Authorized 1990	Estimated 1991
Senior Executive Service 1	12	10	10
Senior Executive Service 2	22	18	18
Senior Executive Service 3	44	30	30
Senior Executive Service 4	120	135	135
Senior Executive Service 5	1	2	2
Senior Executive Service 6			
Subtotal	199	195	195
GS/GM-16			
GS/GM-15	1,036	669	691
GS/GM-14	3,277	2,368	2,385
GS/GM-13	10,492	8,468	8,264
GS-12	9,773	9,109	9,084
GS-11	10,938	8,433	8,616
GS-10	428	172	560
GS-9	8,938	8,115	8,180
GS-8	831	226	622
GS-7	8,688	9,214	9,276
GS-6	5,002	4,375	4,617
GS-5	7,748	9,168	9,083
GS-4	6,525	6,287	6,837
GS-3	930	1,867	1,906
GS-2	34	98	163
GS-1	8	17	20
Subtotal	74,648	70,566	72,304
Ungraded	113	67	64
Total permanent positions	74,960	70,848	72,563
Unfilled positions, end of year	(28)	(30)	(30)
Total permanent employment end of year	74,932	70,818	72,533

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Tax Law Enforcement, Internal Revenue Service

AVERAGE GRADES AND SALARIES

	Appropriation FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES Salary	$70,600	$75,372	$75,372
Average GS Grade	10.54	8.66	8.61
Average GS Salary	$30,800	$26,843	$26,097
Average Salary of Ungraded positions	$22,729	$16,974	$16,500

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THE DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1990
(Dollars in thousands)

	Perm. Pos.	FTE Pos.	Amount
1990 Appropriation (P.L. 100-440) Enacted by the Congress	33,732	36,731	1,070,252
Adjustments:			
FY 1990 Appropriation (P.L. 101-164) Enacted in Transportation Bill	19	19	5,000
FY 1990 Rescissions (P.L. 101-164) Enacted in Transportation Bill			
Sequestration (P.L. 99-177)			
Staff reductions to absorb increased pay costs	(521)	(521)	
Internal transfers (restructure comparability) and reallocations	(25,500)	(27,716)	(702,500)
Transfer to Inspector General's Office			
Authorized Level for FY 1990	7,730	7,513	832,752
Estimate, FY 1991	8,331	8,000	983,927

BUDGET OF BUDGET ESTIMATES BY APPROPRIATION FISCAL YEAR 1991

	Appropriation FY 1990		Authorized Level FY 1990		Budget Estimate FY 1991		Increase or Decrease (-) for 1991					
							Total Changes		Program Changes		Other Changes	
	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE Pos.	Amount
1. Processing and services			5,021	510,932	5,116	532,512	95	15,580	44	37,599	51	(22,019)
2. Compliance and enforcement			799	100,366	736	113,334	(63)	11,946	17	12,973	(80)	(1,025)
3. Program support			830	57,836	883	101,203	53	43,367	74	10,365	(21)	33,102
4. Tax systems modernization			863	157,560	1,353	247,078	490	90,280	511	80,560	(21)	9,894
Unobligated balance												
Unobligated balance available start of year												
Unobligated balance available end of year												
Total appropriation, authorized level and budget estimate	0	0	7,513	832,752	8,000	993,927	575	161,175	646	147,433	(71)	13,752
Permanent positions			7,730		8,331		601		804		(83)	

Information Systems, Internal Revenue Service

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Processing and Services			Compliance and Enforcement			Program Support			Tax Systems Modernization			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
PROGRAM CHANGES:															
1. Collection of additional tax revenue															
a. Collection of unpaid taxes				5	5	350							5	5	350
b. Field audits				13	12	910							13	12	910
Subtotal, Collection of additional tax revenue				18	17	1,260							18	17	1,260
2. Information Systems	68	64	27,500			11,713	70	74	10,286	541	511	98,500	886	639	148,153
Subtotal, Program changes	68	64	27,500	18	17	12,973	70	74	10,286	541	511	98,500	884	648	147,433
OTHER CHANGES:															
A. Increases necessary to maintain current levels															
1. Within-grade salary increase									1,913						1,913
2. January 1991 pay raise allowance									7,687						7,687
3. Extra day's pay									900						900
4. Health and other benefits increases									1,481						1,481
5. Space rent adjustment									87						87
6. Inflation adjustments:															
a. Travel and transportation of persons									1,104						1,104
b. Transportation of things									1						1
c. Rent, Communications and utilities									7,378						7,378
d. Printing and reproduction									227						227
e. Other services									3,894						3,894
f. Supplies and materials									1,906						1,906
g. Equipment									2,833						2,833
Subtotal, Inflation adjustment	0	0	0	0	0	0	0	0	16,811						16,811
7. Annualizations															
a. Annualization of FY 1990 revenue initiative					15	1,077								15	1,077
b. January 1990 pay raise annualization									2,360						2,360
Subtotal, Annualizations					15	1,077			2,360					15	3,438
8. ADP contract increases			1,970						2,260						4,230
9. ADP reapplication	173	163	301				(21)	(21)	(294)	11	11	4,940	163	153	4,947
Subtotal, Maintaining current levels	173	163	1,371		15	1,077	(21)	(21)	33,192	11	11	4,940	163	168	60,480
Subtotal, Increases	173	163	1,371		15	1,077	(21)	(21)	33,192	11	11	4,940	163	168	60,480

BUDGET EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1991
(Dollars in thousands)

	Processing and Services			Compliance and Enforcement			Program Support			Tax Systems Modernization			Total		
	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount	Pos.	FTE	Amount
OTHER CHANGES (continued):															
B. Non-recurring costs, savings and reductions															
1. Non-recurring ADP costs			(2,000)	(89)	(85)	(3,183)				(32)	(32)	(1,346)	(131)	(127)	(5,143)
2. FTE 1990 savings			(17,362)												(17,362)
3. Program reductions to offset pay costs	(115)	(112)	(4,007)										(115)	(112)	(4,007)
Subtotal, Reductions, non-recurring costs and savings	(115)	(112)	(23,369)	(89)	(85)	(3,183)				(32)	(32)	(1,346)	(246)	(239)	(38,732)
Subtotal, Reductions	(115)	(112)	(23,369)	(89)	(85)	(3,183)				(32)	(32)	(1,346)	(246)	(239)	(38,732)
Subtotal, Other changes	50	54	(22,869)	(89)	(88)	(1,825)	(21)	(21)	33,102	(21)	(31)	3,894	(82)	(71)	13,752
Total, Increases or Decreases in FY 1991 Compared with FY 1990 Authorized Level	104	95	15,560	(91)	(83)	11,948	50	53	42,367	539	490	99,280	601	575	181,175

Information Systems, Internal Revenue Service

Summary Justification of FY 1991 Budget Estimates

The Information Systems appropriation provides funding for four activities: Processing and Services, Compliance and Enforcement, Program Support and Tax Systems Modernization.

The Processing and Services activity provides automation support for the processing of tax and information returns, issuing refunds and notices and accounting for tax revenue. It also provides automation support for assisting taxpayers in meeting their tax obligations. Processing performed by this activity is basic to tax administration and provides necessary input to almost all other Internal Revenue Service programs. This activity funds automation efforts in the ten IRS service centers, Martinsburg Computing Center and all field offices.

The Compliance and Enforcement activity provides automation support for systems involved in directing IRS compliance and enforcement programs, including: examination of tax returns, collecting unpaid tax accounts, securing delinquent returns, investigating tax fraud, resolving tax disputes, and determining the tax liability status or exemption of organizations, maintaining a tax litigation function which represents the Service in Tax Court and providing legal support for the Tax Fraud and Collection functions.

The Program Support activity provides automation support for all IRS programs of an administrative nature, including management and financial information, logistics, payroll and personnel, and the automation of internal audit and security. The support provided for in this activity ensures the efficient accomplishment of the IRS payroll and personnel systems, financial systems, resource inventory systems and quality assurance efforts.

The Tax Systems Modernization activity provides for the major redesign and acquisition of the basic information system infrastructure to achieve a fully integrated framework for tax administration operations. This includes implementing the design and development of a redesigned tax administration system, developing target architecture, replacing equipment at the Service's two corporate sites with compatible hardware and software, acquiring service center support systems to house redesigned and existing functions currently performed in the service centers and other major redesign efforts.

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FY 1991 Program

The request for the Information Systems Appropriation totals 8,088 average positions and $993.9 million, a net increase of 575 average positions and $161.2 million above the FY 1990 revised level.

1. Processing and Services

The Processing and Services activity provides for the automated support of processing tax returns and related documents and for taxpayer assistance. The Processing and Services activity has a number of major responsibilities, including:

-- processing tax returns, supplemental documents and federal tax deposits;

-- depositing tax receipts and maintaining general and subsidiary ledgers of tax revenue collected;

-- issuing tax bills and notices of delinquency, and establishing delinquent accounts;

-- providing tax data for individual and business master files;

-- maintaining all ADP systems that directly involve tax administration. This includes developing software, acquiring systems, providing contractual support, testing new systems and changing existing systems and providing a number of ADP services to IRS personnel;

-- providing telecommunications services;

-- maintaining national master files of the tax administration system;

-- encouraging voluntary compliance with Federal tax laws by informing taxpayers of their responsibilities and providing customer service to assist taxpayers in meeting their obligations; and,

-- providing essential ADP field staff to support the Service's information systems and major tax processing systems in the regions, districts, and service centers.

FY 1991 Program

The request for Processing and Services totals 5,116 average positions and $532.5 million, a net increase of 95 average positions and $15.6 million above the FY 1990 revised level.

Resources are requested to fund increased cost of telephone circuits to support additional tele-tax processors; purchase computer equipment and peripherals for the Expert System Module; lease to ownership of UNISYS compatible tape cartridge systems in ten service centers and maintenance of the current and new automatic call distribution system. Also included is a request for the system design, software development and system implementation, as well as the monitoring and coordination of Field development efforts for the Automated Workload Management System. Resources are requested for vendor programming support of the Optical Character Recognition (OCR) Systems Replacement System and maintenance costs for the OCR-Federal Tax Deposit system.

2. Compliance and Enforcement

The Compliance and Enforcement activity provides for the automated support of IRS compliance and enforcement programs. The Compliance and Enforcement activity is responsible for:

-- determining taxpayers' correct income and tax liability;

-- comparing information documents with tax returns to provide investigative leads of potential failures to file required tax returns, and identifying instances of over-reporting and underreporting of tax liability;

-- maintaining compliance with tax laws by monitoring employee pension plans, by determining the qualifications of organizations seeking tax-exempt status, and by examining the returns of exempt organizations;

-- collecting unpaid accounts and securing unfiled tax returns and payments;

-- investigating criminal violations of the Internal Revenue laws;

-- dealing with taxpayers' disagreements with examination results by providing an independent administrative review to reach a settlement;

-- providing a tax litigation function to represent the IRS in tax court; and,

-- providing general legal advice within the Service.

FY 1991 Program

The request for Compliance and Enforcement totals 736 average positions and $112.3 million, a net decrease of 63 average positions and a net increase of $11.9 million above the FY 1990 revised level.

Resources are requested to replace and maintain the current level of service in the Automated Collection System (ACS) and funds the first phase of ACS replacement of mainframe computers and development of enhanced applications. Also inlcluded are resources to fund lease-to-purchase costs and support/maintenance costs for the replacement of EP/EO minicomputer systems.

3. Program Support

The Program Support activity provides automation support for all IRS administrative programs, including management and financial information, payroll and personnel systems, and the automation of internal audit and security. Major responsibilities included in this activity are:

-- supporting personnel and payroll activities;

-- managing financial resources needed to fulfill the Service's tax administration mission in a cost effective manner;

-- developing and administrating computer based training for the IRS;

-- preparing required statistical information on income and other aspects of the tax system;

-- conducting internal audits and investigations by analyzing data available on IRS computer systems; and,

-- management information systems support for criminal investigation efforts, electronic research services and information for IRS executives.

FY 1991 Program

The request for Program Support totals 883 average positions and $101.2 million, a net increase of 53 average positions and $13.2 million above the FY 1990 revised level.

Resources are requested to convert the IRS payroll to the United States Department of Agriculture payroll/personnel systems; provide partial funding to purchase computers for Internal Auditors and improve their productivity by allowing them access to a nationwide network of auditing software; to implement the Automated Financial System accounting module and for the design and programming of the budget formulation module; provide funding for maintenance of existing Statistics of Income ADP equipment and for mainframe timesharing expenses for statistical studies; and finally for maintenance of old hardware and peripherals and purchase of new software and ungrades for the Quality and Integrity Assurance System.

4. Tax Systems Modernization

The Tax Systems Modernization activity provides for the major redesign and acquisition of the basic information system infrastructure to achieve a fully integrated framework for tax administration operations. Modernization of the federal tax administration will increase revenues, make the system more efficient, improve services to the taxpayer and improve taxpayer compliance and confidence. The Tax Systems Modernization activity has many major responsibilities, including:

-- implementing the design and development of a redesigned tax administration system;

-- continuing and enhancing the capability of transcribing tax returns filed electronically;

-- improving and modernizing tax processing systems that input, analyze and store information;

-- developing the target architecture that will support input processing systems, corporate systems, departmental systems and end user systems;

-- acquiring service center support systems to house new and redesigned functions as well as existing functions currently performed in the service centers;

-- establishing corporate databases to provide Field IRS caseworkers with on-line, immediate access to tax account information to assist them in closing tax cases in an efficient manner; and,

-- replacing equipment at our two corporate sites, Martinsburg Computing Center and Detroit Computing Center, with compatible hardware and software systems. Th's will provide the Service with flexibility to shift workload from site to site in the event of heavy peak processing needs or a disaster.

FY 1991 Program

The request for Tax Systems Modernization totals 1,353 average positions and $247.9 million, a net increase of 490 average positions and $90.3 million above the FY 1990 revised level.

Resources are requested to support the definition, design, and development of the Service's long-term redesign of the tax administration system. This includes user requirement support, logical design, security and risk management, telecommunications, modeling, systems engineering and physical design to support ongoing projects in such areas as configuration management, systems engineering, security and integration planning. These resources will also implement the Automated Underreporter Program in three service centers, install pilot systems for the Automated Inventory Control System and the Accounts Maintenance Automation System. These resources will also provide for the purchase of hardware, software and communication systems for the Electronic Filing System, Service Center Systems Acquisition and Corporate Files On Line projects. Also included is a request to build and test an Input Processing Control System model in a service center; and for studies and prototypes under the Cash Management umbrella to test and analyze cash management receipt and processing alternatives.

Information Systems

For necessary expenses for data processing and telecommunications support for Internal Revenue Service activities, including: returns processing and services; compliance and enforcement; program support; and tax systems modernization; and for the hire of passenger motor vehicles (31 U.S.C. 1343(b); and services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner; $993,927,000, of which not less than $247,878,000 shall remain available until expended for tax systems modernization, and of which not to exceed $60,000,000 shall remain available until expended for other systems development projects.

Information System, Internal Revenue Service

SUMMARY OF EMPLOYMENT (NUMBER OF AVERAGE POSITIONS)

Principal Categories	Actual 1989	Estimated 1990	Estimated 1991	Increases or Decreases for 1991 Total	Increases or Decreases for 1991 Program Changes	Increases or Decreases for 1991 Other
1. Processing and Services						
Inspectors	0	4	4	0	0	0
Taxpayer Service Reps	0	2	2	0	0	0
Other Full-time permanent	0	4,929	5,024	95	44	51
Total Full-Time Perm	0	4,935	5,030	95	44	51
All other	0	86	86	0	0	0
Total	0	5,021	5,116	95	44	51
2. Compliance and Enforcement						
Appeals Officers	0	1	1	0	0	0
Revenue Agents	0	162	43	(119)	0	(119)
Technical	0	5	5	0	0	0
Other Full-time permanent	0	627	683	56	17	39
Total Full-Time Perm	0	795	732	(63)	17	(80)
All other	0	4	4	0	0	0
Total	0	799	736	(63)	17	(80)
3. Program Support						
Revenue Agents	0	48	48	0	0	0
Appeals Auditors	0	1	1	0	0	0
Taxpayer Service Reps	0	6	6	0	0	0
Technical	0	11	11	0	0	0
Other Full-Time Perm	0	745	798	53	74	(21)
Total Full-Time Perm	0	811	864	53	74	(21)
All other	0	19	19	0	0	0
Total	0	830	883	53	74	(21)
4. Tax Systems Modernization						
Revenue Agents	0	12	12	0	0	0
Attorney	0		1	1	1	0
Taxpayer Service Reps	0	14	14	0	0	0
Other Full-Time Perm	0	809	1,298	489	510	(21)
Total Full-Time Perm	0	835	1,325	490	511	(21)
All other	0	28	28	0	0	0
Total	0	863	1,353	490	511	(21)
Appropriation Total						
Full-time permanent	0	7,376	7,951	575	646	(71)
All other	0	137	137	0	0	0
Total	0	7,513	8,088	575	646	(71)

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DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

ERRATA

The amount requested for this new account totals $933,927,000, $69,934,000 below the amount shown in the President's Budget. The difference reflects the correct alignment of resources among the Service's four operating appropriations. Calculations in preparation for the FY 1991 President's Budget were done prior to the final technical alignment of base resources in the FY 1991 budget, in conjunction with calculations to restructure the IRS appropriations. All program initiatives inherent in the President's Budget are completely unchanged.

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January 29, 1990

INFORMATION SYSTEMS, INTERNAL REVENUE SERVICE

EXPLANATION OF PROPOSED FISCAL YEAR 1990 BUDGET AUTHORIZED LEVELS AND ADJUSTMENTS

In response to congressional action on the FY 1990 President's Budget request, a transfer to the Office of the Inspector General and as a result of other workload and cost changes, the Internal Revenue Service proposes the following adjustments in FY 1990 spending ($000):

Object Classification	President's Budget As Amended	+ or - Congressional Action	+ or - Inspector General Transfer	+ or - Proposed Reprogramming	+ or - Proposed Authorized Level	+ or - Restructure Comparability	Proposed Restructured Level
11.1 Full-Time Permanent Positions	858,243			67,507	925,750	(701,319)	224,431
11.3 Other than Full-Time Permanent Positions	58,568			5,147	63,715	(61,452)	2,263
11.5 Other Personnel Compensation	24,301			533	24,834	(16,358)	8,476
11.8 Special Personal Services Payments	1,771			1,514	3,285	(3,285)	0
11.9 Personnel Compensation (Total)	942,883	0	0	74,701	1,017,584	(782,414)	235,170
12.1 Civilian Personnel Benefits	183,941			38,657	202,598	(148,659)	53,939
13.0 Benefits for Former Personnel	0			0	0	0	0
21.0 Travel and Transportation of Persons	60,989			(11,416)	49,573	(28,119)	21,454
22.0 Transportation of Things	5,382			(3,130)	2,252	(2,188)	64
23.1 Rental Payments to GSA	107,583			(2,927)	104,656	(89,960)	14,696
23.3 Communications, Utilities & Misc. Charges	160,178			(40,729)	119,449	113,052	232,501
24.0 Printing and Reproduction	19,966			(7,045)	12,921	(9,502)	3,419
25.0 Other Services	78,749			(22,279)	54,470	142,232	196,702
26.0 Supplies and Materials	16,550			(8,539)	8,011	17,276	25,287
31.0 Equipment	55,616			(29,259)	26,357	23,163	49,520
41.0 Grants, Subsidies And Contributions	2,800			200	3,000	(3,000)	0
42.0 Insurance Claims And Indemnities	172			(132)	40	(40)	0
99.0 Total	1,612,809	0	0	(11,898)	1,600,911	(768,159)	832,752
BUDGET ACTIVITY							
TAX FRAUD INVESTIGATION	249,947			3,958	253,905	(253,905)	0
COLLECTION	911,902			(24,771)	887,131	(887,131)	0
TAXPAYER SERVICE	373,902			5,705	379,607	(379,607)	0
ENFORCEMENT LITIGATION AND TECHNICAL	77,058			3,210	80,268	(80,268)	0
PROCESSING AND SERVICES	0			0	0	516,932	516,932
COMPLIANCE AND ENFORCEMENT	0			0	0	100,386	100,386
PROGRAM SUPPORT	0			0	0	57,836	57,836
TAX SYSTEMS MODERNIZATION	0			0	0	157,598	157,598
TOTAL, INFORMATION SYSTEMS	1,612,809	0	0	(11,898)	1,600,911	(768,159)	832,752

EXPLANATION OF CONGRESSIONAL ACTION

The FY 1990 Treasury Appropriation included additional funding above the President's Budget as amended to improve drug enforcement. In addition, a reduction to funding levels is reflected due to sequestration.

EXPLANATION OF REPROGRAMMING

1. Absorption of pay raise resulted in a staff reduction (521 FTE) and reductions to support areas.
2. Other cost increases such as currency transaction reporting, tax forms distribution, internal audit, and employee benefits.

EXPLANATION OF RESTRUCTURE COMPARABILITY

1. Appropriation restructuring on a comparable basis with the account proposal for FY 1991.

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EXPLANATION OF FISCAL YEAR 1991 BUDGET INCREASES AND DECREASES

In FY 1991 funding requirements for the Information Systems appropriation are projected to be $993,927,000. Total increases of $187,913,000 are offset by -$26,738,000 in program reductions and non-recurring expenses; resulting in a net increase of $161,175,000 over the FY 1990 funding level of $832,752,000. In addition, total increases of 814 FTE positions are offset by a reduction of -239 FTE positions resulting from base reductions and pay offset absorptions, resulting ih a net increase of 575 FTE positions above the FY 1990 staffing levels.

PROGRAM CHANGES

Total Requested Program Changes.....646 average positions and $147,423,000

The program changes requested for FY 1991 will provide automation support for processing tax and information returns, compliance and enforcement programs, IRS programs of an administrative nature and for the major redesign and acquisition of the basic information system infrastructure to achieve a fully integrated framework of tax administration operations.

The funding for these program increases by object class is as follows:

Personnel Services	$ 28,214,000
Travel and Transportation of Persons	5,640,000
Transportation of Things	136,000
Communications, Utilities and Other Rent	13,779,000
Printing and Reproduction	229,000
Other Services	55,241,000
Supplies and Materials	3,932,000
Equipment	40,252,000
	$147,423,000

1. Collection of Additional Tax Revenues.....17 average positions and $ 1,260,000

Resources are requested to enable the IRS to collect additional tax revenues through a package of FY 1991 revenue initiatives. Included in the Information Systems appropriation are resources for support of two revenue initiatives that are being requested in the Tax Law Enforcement Appropriation. These are:

a. Collection of Unpaid Taxes: Compliance and Enforcement requires 5 average positions and $350,000 to support this initiative described under the Tax Law Enforcement Appropriation.

b. Examination Field Audits: Compliance and Enforcement requires 12 average positions and $910,000 to support this initiative described under the Tax Law Enforcement Appropriation.

The increases for collecting additional tax revenues are distributed into the following object classes:

Personnel Services	$ 686,000
Travel and Transportation of Persons	68,000
Transportation of Things	2,000
Communications, Utilities and Other Rent	190,000
Printing and Reproduction	8,000
Other Services	93,000
Supplies and Materials	38,000
Equipment	175,000
	$1,260,000

2. ADP Systems Modernization.....629 average positions and $146,163,000

Funding increases are for Processing and Services, Compliance and Enforcement, Program Support and Tax Systems Modernization efforts. Computations for position increases in most cases are made at the first step of the appropriate grade. Personnel benefits are calculated at current rates for life insurance, retirement and FICA where applicable. Travel and support costs related to staffing increases are computed using rates based on past experience. The request includes increases for rent and installation of ADP equipment, maintenance of computer equipment, data processing services, other ADP supplies, ADP computer and peripheral equipment, data transmission and purchase of telecommunications equipment.

Personnel Services	$ 27,528,000
Travel and Transportation of Persons	5,572,000
Transportation of Things	134,000
Communications, Utilities and Other Rent	13,589,000
Printing and Reproduction	221,000
Other Services	55,148,000
Supplies and Materials	3,894,000
Equipment	40,077,000
	$146,163,000

a. Processing & Services.....:.....44 average positions and $ 37,599,000

Resources are requested for automation support for the processing of tax and information returns, issuing refunds and notices and accounting for tax revenue. The following information reflects the program increases for this budget activity:

Automated Workload Management System.....10 average positions and $2,610,000

The Automated Workload Management System (AWMS) will be a comprehensive, integrated, mainframe independent, on-line production control and scheduling system for the service centers. The increase provides funding for the system design, software development and system implementation, as well as the monitoring and coordination of the Field development efforts. The increase also provides for hardware acquisition, training, and travel expenses during system implementation.

Tax Processing Mainframe Computer Systems.....$ 9,763,000

The Tax Processing Mainframe Computer Systems process the data provided by the data conversion and data entry processing systems as well as provide on-line access to taxpayer information and account status. The increase provides funding for the first year cost (lease-to-ownership) of UNISYS compatible tape cartridge systems at ten service centers; maintenance costs for the UNISYS 1100/80 at ten service centers and Martinsburg Computing Center; and Uninterruptible Power Systems at the Martinsburg Computing Center and the Detroit Computing Center.

Replacement Software Development System.....$ 1,187,000

The Replacement of the Software Development System proposes to replace all existing single purpose terminals with multipurpose microcomputers. Multipurpose terminals allow programmers to access three different systems from a single terminal: Master File processing, service center processing and programming design. The increase provides funding for the acquisition of 90 of the total 570 multipurpose microcomputers and provides for the maintenance and software necessary for proper operation of the microcomputers.

Distributed Input System.....$ 850,000

The Distributed Input System (DIS) supports the Returns Processing and Accounting Division mission to receive and timely process all tax returns and information documents, and to timely process and account for revenue collection. The increase provides funding for DIS programming support.

Optical Character Recognition (OCR) - Federal Tax Deposits (FTD).....$ 1,086,000

The Optical Character Recognition - Federal Tax Deposits (OCR-FTD) system optically scans Federal Tax Deposit forms. The increase provides necessary funding for increased maintenance expenses associated with the OCR-FTD. The maintenance increase is due to the age of the equipment. This aged equipment is scheduled to be replaced beginning in FY 1992.

Optical Character Recognition (OCR) Systems Replacement.....25 average positions and $ 4,655,000

The OCR Systems Replacement will provide a more technologically advanced hardware/software system with adequate backup capability to guard against system failures. The increase provides funding for vendor programming support and 15 staff years to support the OCR Systems Replacement. An additional 10 staff years are needed to perform contract administration, problem intervention, and OCR coordination duties.

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Toll-Free Automatic Call Distributor (ACD) Replacement.....$ 5,541,000

The Toll-Free Automatic Call Distributor (ACD) Replacement program will provide the necessary equipment for the Taxpayer Service Telephone Program. This program will provide high-quality tax filing advice and assistance to the taxpaying public for no more than the cost of a local telephone call. The increase provides funding for maintenance c the current and new ACD Replacement as the systems are brought on-line. The increase also funds lease-to-purchase expenses on the equipment for the fiscal year.

Federal Tele-Tax Information System.....$ 2,104,000

The Federal Tele-Tax Information System consists of computer equipment designed to provide recorded tax and automated refund information. The increase provides funding to cover the increased cost of telephone circuits to support 6 additional Tele-Tax processors. The new processors will aid IRS in answering 29 million calls expected in FY 1991.

Automated Taxpayer Service System.....9 average positions and $ 9,803,000

The Automated Taxpayer Service System (ATSS) provides desk top computer functionality for assistors at each toll-free site to improve the quality of tax law assistance to the public. The increase provides funding to purchase computer equipment and peripherals for the Expert System Module.

The funding for these program increases by object class is as follows:

Personnel Services	$ 1,772,000
Travel and Transportation of Persons	403,000
Transportation of Things	8,000
Communications, Utilities and Other Rent	3,883,000
Printing and Reproduction	18,000
Other Services	13,637,000
Supplies and Materials	78,000
Equipment	17,800,000
	$37,599,000

b. Compliance and Enforcement.....$11,713,000

Resources are requested to provide automation support for systems involved in directing IRS compliance and enforcement programs. The following information reflects the program increases for this budget activity:

Integrated Collection System.....$11,247,000

The Integrated Collection System (ICS) is a computer-based on-line processing system utilizing stand alone mainframe computers at 21 sites. This system enables the Service to more efficiently process delinquent taxpayer accounts and secure delinquent returns. The increase provides funding necessary to maintain the current level of service in the Automated Collection System (ACS) portion of the project. It also funds the first phase of ACS replacement of mainframe computers and development of enhanced ACS applications.

Employee Plans (EP)/Exempt Organizations (EO) Determination System.....$ 466,000

The EP/EO Determination System automates the clerical screening and letter preparation process for EP and EO determination letter requests. This increase covers lease-to-purchase costs and support/maintenance costs for the replacement minicomputer systems which are necessary to maintain current levels of service to taxpayers.

The funding for these program increases by object class is as follows:

Personnel Services	$ 14,000
Travel and Transportation of Persons	409,000
Communications, Utilities and Other Rent	7,504,000
Other Services	3,560,000
Supplies and Materials	42,000
Equipment	184,000
	$11,713,000

c. Program Support.....74 average positions and $10,265,000

Resources are requested to provide automation support for all IRS programs of an administrative nature, including management and financial information, payroll and personnel, etc. The following information reflects the program increases for this budget activity:

Treasury Integrated Management Information System.....10 average positions and $ 4,000,000

The Treasury Integrated Management Information System (TIMIS) is an integrated payroll and personnel system located at United States Department of Agriculture (USDA)'s National Finance Center in New Orleans, Louisiana. The increase in FY 1991 reflects the additional resources needed to convert to the USDA payroll/personnel system.

Quality and Integrity Assurance System.....$ 476,000

The Quality and Integrity Assurance System will allow Inspection to continue to access all IRS computerized systems to conduct in-depth reviews to perform integrity tests. The increase provides funding for maintenance on hardware and peripherals until they are replaced, and maintenance contracts on machines as they are phased in.

Auditor Network System.....$ 1,560,000

The Auditor Network System allows Internal Auditors to download and analyze large amounts of data, prepare workpapers and statistical analyses, and write, revise and transmit audit reports via computers. The increase will provide partial funding to purchase computers for Internal Auditors and significantly improve their productivity by allowing them access to a nationwide network of auditing software. This network is critical to conducting internal audits of Service ADP systems both existing and under development.

Automated Financial System.....64 average positions and $ 3,426,000

The Automated Financial System (AFS) will facilitate the ability of decision makers to allocate and reallocate funds within our over $6 billion operating budget. The increase provides funding for staff years necessary to provide for Detroit Computing Center/contractor support needed to implement the accounting module, to program the servicewide accounting component of the accounting module and to design and program the budget formulation module. It also funds the purchase of hardware equipment for five regions plus the National Office that will provide access to the system.

Statistics of Income (SOI) Distributed Processing System.....$ 803,000

This initiative provides a reliable data communications link to terminals located in the ten service centers and the Detroit Computing Center which supports SOI on-line transactions. The increase provides funding for maintenance of existing SOI ADP equipment and mainframe timesharing expenses for statistical studies.

The funding for these program increases by object class is as follows:

Personnel Services	$ 1,664,000
Travel and Transportation of Persons	1,517,000
Transportation of Things	7,000
Communications, Utilities and Other Rent	483,000
Printing and Reproduction	15,000
Other Services	1,678,000
Supplies and Materials	819,000
Equipment	4,082,000
	$10,265,000

d. Tax System Modernization.....511 average positions and $86,586,000

Resources are requested for the major redesign and acquisition of the basic information system infrastructure to achieve a fully integrated framework for tax administration operations. The following information reflects the program increases for the budget activity:

Service Center Departmental Applications.....87 average positions and $19,189,000

The Service Center Departmental Applications (SCDA) projects that are currently under development provide early modernization benefits by automating manual processes c eliminating unnecessary processes in existing systems. These resources will be used to implement the Automated Underreporter (AUR) System in three service centers, install pilot systems for the Automated Inventory Control System (AICS) and Accounts Maintenance Automation (AMA), develop a Service Center Departmental Applications (SCDA) transition plan, and establish a Revenue Accounting Control System II (RACS II) project team, responsible for reviewing the entire tax processing feeder systems to streamline and eliminate duplicate accounting and financial data.

Systems Integration and Long Term Design.....30 average positions and $11,936,000

The Systems Integration and Long Term Design will provide the methodology and high-level logical and physical designs to meet the mission of the Service into the year 2001 and beyond. The present system is based on computer architecture and systems developed in the late 1950's. The increase will provide funding for support of the definition, design, and development of the Service's long-term redesign of the tax administration system. These resources will be used in support of the definition, design, and development of the Service's long-term redesign of the tax administration system. This includes user requirement support, logical design, security and risk management, telecommunications, modeling, systems engineering, and physical design, and support to ongoing projects in such areas as configuration management, systems engineering, security, and integration planning. The resources will also be used for the acquisition of contractor support services to translate the target architectures into specific systems, sub-systems and interfaces, and perform engineering analysis for these systems.

Integrated Input Processing System.....66 average positions and $20,130,000

These resources will be used for the Document Processing System project and prototyping efforts (High Speed Data Capture and Auto-pipeline); a large scale prototype to test the feasibility of rapid processing of third party (Information Returns) documents through electronic filing; to build and test an Input Processing Control System Model in a service center; and studies and prototypes under the Cash Management umbrella to test and analyze cash management receipt and processing alternatives, including the Electronic Deposit Processing System for which the Electronic Federal Tax Deposit System is the initial phase, and the Paper Deposit Processing System for which the Check Handling Enhancements and Expert Systems is the initial phase. These resources will be used for the Mixed Media Workstation prototype which will determine and test user requirements for image-based workstations and provide the criteria for hardware purchase; and the Automated Document Handling prototype to test robotics for automating the current mail processing system.

Service Center Systems Acquisition.....121 average positions and $17,530,000

The Service Center Systems Acquisition (SCSA) will acquire the Service Center Support System which will house several new and redesigned functions as well as existing functions currently performed in the service centers. These resources will be used for new hardware for a program development system which will eventually supersede the existing 1100/8x computers now in the service centers. The resources will be used for local area networks, contract awards and their administration, site preparation, telecommunications and security support, training, operations, project management and planning for later phases.

Corporate Files On Line.....150 average positions and $11,407,000

Corporate Files On Line will enable IRS caseworkers to have the most current and complete tax account information with near immediate access capabilities. These resources will be used to build up the eight Corporate Files On Line (CFOL) project teams which will be in full development stages in FY 1991. These resources will provide direct assistance in software design and development of telecommunications system requirements; acceptability testing of the new software; on-site project support at the Martinsburg and Detroit Computing Centers; capacity management modeling support; and hardware acquisition and testing support. Resources will also be used for providing the projects with training, facilities, contracting, and organization impact analysis support; and for on-site project implementation support at the Memphis Service Center.

Full Utilization/Electronic Filing System.....57 average positions and $ 6,394,000

The Full Utilization/Electronic Filing System provides the capability to automate the receiving, sorting, blocking, numbering, coding and editing, and transcribing of returns filed electronically by automated return preparers. The increase provides funding for the acquisition of 6 data communications systems and 6 super-mini computers for three processing service centers. The increase also funds the development and maintenance of software and operating costs for several systems located in various service centers nationwide.

The funding of these program increases by object class is as follows:

Personnel Services	$24,068,000
Travel and Transportation of Persons	3,243,000
Transportation of Things	119,000
Communications, Utilities and Other Rent	1,722,000
Printing and Reproduction	188,000
Other Services	36,275,000
Supplies and Materials	2,955,000
Equipment	18,016,000
	$86,586,000

OTHER CHANGES

TOTAL OTHER CHANGES.....-71 average positions and $13,752,000

Increases necessary to maintain current levels.....168 average positions and $40,490,000

1. Within Grade Salary Increase.....$ 1,012,000

   Net Cost of within grade salary advances, requested total $1.012 million.

2. January 1991 Pay Raise Allowance.....$ 7,687,000

   Resources to fund the January 1991 pay increase.

3. Extra Days Pay.....$ 909,000

   This adjustment reflects the cost of personnel compensation and benefits for one additional work day in FY 1991.

4. Health and Other Benefits Increases.....$ 1,491,000

   The Office of Personnel Management (OPM) projects a 15% increase in employee benefits.

5. Space Rent Adjustment.....$ 87,000

   Represents the increase of GSA rent rate from 4.4% to 5.4%.

6. Increased Costs due to Inflation.....$16,611,000

   a. Increased cost of travel.....$ 1,184,000

      GSA estimates a 6.5% increase for per diem and motor pool. The deflator of 4.2% has been applied to all other.

   b. Increased cost of transportation of things.....$ 1,000

      The deflator of 4.2% has been applied to the base.

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c. Increased cost of rent, communications and utilities.....$ 7,376,(

GSA estimates a 4.4% increase for rent, communications and utilities.

d. Increased cost of printing and reproduction.....$ 227,000

The Government Printing Office (GPO) projects a 7% increase for print and reproduction.

e. Increased cost of other services.....$ 3,894,000

The deflator of 4.2% has been applied to the base.

f. Increased cost of supplies and materials.....$ 1,096,000

The deflator of 4.2% has been applied to the base.

g. Increased cost of equipment.....$ 2,833,000

GSA estimates a 5% increase for vehicle purchases. The deflator of 4.2% has been applied to all other equipment.

7. Annualizations

a. Annualization of FY 1990 Revenue Initiatives.....5 average positions and $ 1,077,000

Resources are requested to enable the IRS to collect additional tax revenues through funding the full year cost of the FY_1990 revenue initiatives that were not begun until mid-FY 1990. The resources requested in the Information Systems Appropriation support of initiatives contained in Tax Law Enforcement Appropriation.

b. January 1990 Pay Raise Annualization.....$ 2,349,000

This amount represents personnel compensation and benefits annualized for the FY 1990 pay raise.

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8. ADP Contract Increases.....$ 4,310,000

This increase provides resources to continue ADP projects at FY 1990 levels. An increase of $1.070 million in the Integrated Telecommunications Service project is for projected tariff/usage increases to the Consolidated Data Network (CDN) and the National Communications System. An increase of $3.240 million in the Treasury Integrated System is for payroll account charges for those accounts converted to the United States Department of Agriculture payroll system in FY 1991.

9. ADP Reapplication.....153 average positions and $ 4,957,000

Redirection of resources involving the following ADP projects: transfer to the Martinsburg Computing Center Base Staffing project for the Magnetic Media Reporting Program; to the Integrated Telecommunications Service project because the responsibility for the field and national office telecommunications program has been transferred to Computer Services; and resources were redirected from the Detroit Computing Center Base Staffing project to the Currency Transaction Reports (CTR) function in Tax Fraud and Financial Investigations Appropriation.

Non-recurring costs, savings and reductions.....-239 average positions and -$26,738,000

1. Non-Recurring ADP Costs .....-127 average positions and -$ 5,348,000

Eliminates one-time cost of ADP funds for FY 1990. Also includes a reduction of base resources (-28 average positions and -$969,000) for the Integrated Collection System. The balance of -99 average positions and -$4,379,000 includes reductions for the Counsel Automated Systems Environment, Integrated Telecommunications Service, Report Writing Equipment, Windfall Profits Tax, Automated Examination System, Information Returns Program, Information Systems Development Program Management, Service Center Departmental Applications, Service Center Systems Acquisition and Corporate Files On Line projects.

2. FTS 2000 Savings.....-$17,393,000

This represents the Internal Revenue Service portion of the savings calculated by the General Service Administration resulting from the installation of the FTS 2000 system.

3. Program Reductions to Offset Pay Costs and Other Absorptions.....-112 average positions and -$4,087,000

Reduction necessary to offset January 1, 1990 pay increase.

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Standard Classification Schedule
(Direct Obligations Only)

	Appropriation 1989	Authorized Level 1990	Budget Estimate 1991	1991 Increases over 1990
Total number of permanent positions	0	7,730	8,331	601
Full time equivalent (FTE) workyears	0	7,513	8,088	575
11.1 Full-Time Permanent Positions		224,431	254,289	29,858
11.3 Other than Full-Time Permanent Positions		2,263	2,357	94
11.5 Other Personnel Compensation		8,476	8,518	42
11.8 Special Personal Services Payments		0	7	7
11.9 Personnel Compensation (Total)	0	235,170	265,171	30,001
12.1 Civilian Personnel Benefits		53,939	64,292	10,353
13.0 Benefits for Former Personnel		0	540	540
21.0 Travel and Transportation of Persons		21,454	30,260	8,806
22.0 Transportation of Things		64	213	149
23.1 Rental Payments to GSA		14,696	18,544	3,848
23.3 Communications, Utilities & Misc. Charges		232,501	216,732	(15,769)
24.0 Printing and Reproduction		3,419	3,791	372
25.0 Other Services		196,702	269,356	72,654
26.0 Supplies and Materials		25,287	29,972	4,685
31.0 Equipment		49,520	95,056	45,536
41.0 Grants, Subsidies And Contributions		0	0	0
42.0 Insurance Claims And Indemnities		0	0	0
99.0 Sub-total, Direct Obligations	0	832,752	993,927	161,175
Unobligated Balances Available SOY (-)				
Unobligated Balances Available EOY (+)				
Unobligated Balances Lapsing				
TOTAL BUDGET AUTHORITY	0	832,752	993,927	161,175

Section 415(c) of Internal Revenue Code

Congressman Skeen: We have heard from a number of businesses regarding the 25% testing on Qualified Retirement Plans whereby the post-tax, voluntary savings contributions had to be included in the testing rule. It would seem that this is inconsistent for encouraging savings and counter to the President's proposal for a Family Savings Plan. What are your thoughts on this issue?

Mr. Goldberg: Your question appears to refer to section 415(c) of the Internal Revenue Code, under which annual additions on behalf of any individual to a qualified defined contribution plan are limited to the lesser of $30,000 or 25 percent of the individual's compensation. You are correct that, under section 415(c)(2)(B), voluntary after-tax employee contributions are treated as annual additions subject to the limit.

Subjecting voluntary after-tax employee contributions to the section 415 limits is not counter to the President's program for increasing the national savings rate. Although such contributions are not deductible when made, they do receive the benefit of tax-free inside build-up during the period they are held in the qualified plan. Tax-favored contributions to qualified retirement plans and other tax-favored retirement vehicles are uniformly subject to numerical limits of this type. For example, nondeductible IRA contributions, which receive much the same tax treatment as voluntary after-tax employee contributions to defined contribution plans, are limited to no more than $2,000 per year under section 408(o)(2) of the Internal Revenue Code.

These limits serve two important purposes. First, they stem the potential revenue loss to the Treasury that would result from the ability to make unlimited tax-favored contributions. And, second, the limits ensure that the tax benefits conferred under tax-favored retirement savings arrangements are spread more evenly among all Americans, most of whom, frankly, do not have the ability to make contributions beyond a certain limited level. Because the President's program is designed to achieve a broad shift in the personal savings habits of Americans while limiting the revenue cost of tax incentives to encourage increased savings, limits of the type you describe are not contrary to the President's program and, in fact, conform with its objectives.

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Internal Revenue Service
Information System

Detail of Permanent Positions

	Actual 1989	Authorized 1990	Estimated 1991
Senior Executive Service 1			
Senior Executive Service 2		1	1
Senior Executive Service 3		1	1
Senior Executive Service 4		4	4
Senior Executive Service 5			
Senior Executive Service 6			
Subtotal	0	6	6
GS/GM-16			
GS/GM-15		46	46
GS/GM-14		159	159
GS/GM-13		516	776
GS-12		1,604	1,799
GS-11		1,268	1,425
GS-10		2	4
GS-9		3,049	2,962
GS-8		7	7
GS-7		251	295
GS-6		35	35
GS-5		652	682
GS-4		31	31
GS-3		103	103
GS-2		1	1
GS-1			
Subtotal	0	7,724	8,325
Ungraded			
Total permanent positions	0	7,730	8,331
Unfilled positions, end of year		(18)	(18)
Total permanent employment end of year	0	7,712	8,313

January 29,1990

Information System, Internal Revenue Service

AVERAGE GRADES AND SALARIES

	Appropriation FY 1989	Authorized FY 1990	Estimated FY 1991
Average ES Salary		$75,383	$75,383
Average GS Grade		9.85	10.00
Average GS Salary		$31,297	$27,206
Average Salary of Ungraded positions			

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